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Coping with OPEC Surpluses
A Global Perspective

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Coping with OPEC Surpluses A Global Perspective

Central Intelligence Agency
Directorate of Intelligence

August 1977

Summary

The foreign payments problems created by the 1974 price hike imposed by the Organization of Petroleum Exporting Countries (OPEC) have diminished over the past three years and will continue to do so through 1980 if real oil prices do not increase much. OPEC's current account surplus is now running at about US $40 billion a year compared with the record $73 billion in 1974. Because of the rapid inflation in prices of goods and services other than oil, the burden posed by the OPEC surplus now equals less than 5 percent of non-OPEC exports after it had climbed from 1 percent in the early 1970s to 11 percent in 1974. We expect that by this measure the burden will drop to roughly 2 percent in 1980.

Policymakers in some countries nonetheless still find that payments problems are a serious restraint to economic growth. While most countries took the necessary and often difficult steps to adjust, others discovered they were unable to do so mainly because of domestic political and economic weaknesses. In fact, a major impact of the OPEC-generated crisis was to surface or sharply intensify these fundamental weaknesses.

Our review of non-OPEC countries indicates that while most less developed countries (LDCs) are no more constrained by balance-of-payments problems now than they were before 1974, many developed countries have experienced striking changes in their payments positions. After years of surpluses or easily manageable deficits, developed countries, especially in Western Europe, now have large deficits. The change means that policymakers in these countries will have to reevaluate their perceptions of how to balance their economic growth and payments goals.

Altogether, we identified 22 countries whose foreign payments positions could generate concern between now and 1980. The list, of course, will change as time passes and unforeseen events develop. For example, Argentina is not included because measures taken over the past few years have corrected the worst of its payments problems; erratic policies or increased political instability could quickly alter this situation. Similarly, India's currently favorable situation largely reflects excellent weather and could turn around quickly.

The size of the current account deficits that each country will actually be able to manage through 1980 will depend mainly on its export potential and how each government and its creditors view the nation's economic and political prospects. A country's debt burden will

While the Department of Treasury agrees with many of the individual conclusions stated, it believes that OPEC payments surpluses are likely to continue to be a major obstacle to achievement of a sustainable world payments pattern and should remain a matter of grave concern to policy-making officials. Treasury believes that the highly aggregated projections presented understate the difficulties facing the system.

continue to be a factor of secondary importance. Lenders have been and are willing to provide funds to a country with a heavy debt burden if they believe it has good growth prospects. On the other hand, little will be lent to a country with a small debt if the lender lacks confidence in that country.

Among the countries with potential problems discernible at this time, *France, Canada, Spain*, and *Brazil* will have to run large current account deficits ($3 billion or more annually) throughout the period to achieve economic growth rates that approach those of the 1960s. From an economic and financial point of view, they have the wherewithal to do so. The three developed countries have low enough foreign debts to manage such deficits while Brazil's market and export potential is sufficiently bright to attract the necessary foreign capital. Their ability to run large deficits will depend much more on political factors.

France's payments problems could be pushed into the critical range by a leftist coalition election victory in 1978, which almost certainly would trigger large-scale capital flight and a loss of foreign investor confidence. The ability to overcome these difficulties would depend on the delineation and the timing of policies set by the new government. If the coalition pursued its relatively moderate avowed program, capital outflow would ebb though businessmen would still hesitate to make new investments. The economic problems would be especially severe, however, if policy differences among the coalition members led to legislative immobility and massive uncertainties.

Although Canada has obtained large amounts of private foreign capital in recent years, Quebec separatism and other contentious political issues may interrupt this flow. Some elements in the international banking community are already taking a close look at investment in Canada.

Spain faces the difficult task of moving from a dictatorship to a democracy while coping with strong separatist movements. The task could be complicated by the need to undertake austerity measures to bridle the country's high inflation. Spain does, however, possess a dynamic economy and a fairly large and prosperous middle class to help it through the transition.

Although Brazil's political situation now seems firm, the process of choosing a new president combined with continuing inflation problems poses some threat to this stability.

Italy, *Sweden*, *Denmark*, *Finland*, and *New Zealand* have decided to slow growth of GNP to reduce current account deficits to what they consider more acceptable levels. Their governments, however, may well have to shift policy courses as they alternately encounter political pressures for higher growth and the reality of enlarged current account deficits. In these five countries, efforts to maintain employment and social benefits have been instrumental in making their exports less competitive as production costs outpaced those of their major competitors.

Peru, *Zambia*, *Zaire*, and *Jamaica* do not have much room for maneuver, and they will end up with small deficits and low GNP growth. Private lenders and international institutions are insisting that these countries take steps to correct fundamental economic problems, actions that will depress economic growth. If they fail to take external advice or default on their foreign debts, they would not be able to borrow the necessary funds to pay for the imports needed to achieve or maintain economic growth.

The *Philippines*, *Turkey*, and *Morocco*, with their poor export potential, may soon be unable to finance the large current account deficits needed to maintain a rapid economic pace.

The other listed countries have their own peculiar difficulties. How well *Egypt* manages will depend on the availability of Arab funds and Cairo's ability to support risky economic reform programs. The size of *Israel's* deficit will be determined mainly by the amount of foreign aid that it receives. *South Africa's* position will hinge on the intensity of outside attacks on its

racial policies. If pressures continue to mount, Pretoria is likely to react by reducing its dependence on foreign capital, thereby braking the economy. *Portugal* will require perhaps $0.5 billion to $1 billion a year in official capital to help overcome the effects of the political turmoil of 1974 and to maintain a moderate rate of economic growth. *Chile* should be able to develop at a reasonable pace and raise sufficient foreign private capital to cover both its large debt service burden and a current account deficit reaching $500 million by 1980. *Austria*, whose problems are largely cyclical in nature, should be able to gradually reduce its current account deficit to a manageable level while achieving an acceptable rate of GNP growth.

On balance we think there continues to be sufficient flexibility in the international financial system to handle these levels of deficit financing. The International Monetary Fund's (IMF) special fund may be called on to help with adjustment assistance when particularly troublesome strains arise. Among the countries we have identified as having potential payments problems, only a few face acute economic slowdowns.

The greatest risk is a contagious economic slowdown in Western Europe. If isolated countries elsewhere go into an economic tailspin, the global picture would be little affected. Nine of the countries, however, are in Western Europe where recessions can spread more quickly because the region's economies are so integrated. The situation could be especially troublesome if both France and Italy are involved. An economic downturn in the next few years would come at a particularly bad time for the continent. Unemployment is expected to remain high because of demographic factors, and France, Italy, and Spain will be contending with unsettled political conditions.

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Coping with OPEC Surpluses
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Introduction

This paper assesses the problem non-OPEC countries face in meeting their goals for economic growth while managing their large OPEC-related current account deficits. Inflationary pressures and foreign payments problems in many non-OPEC countries have made it much more difficult for policymakers to take measures to overcome high rates of unemployment and to make use of idle productive capacity. Their predicament stems in large part from the ongoing adjustment to the massive increase in OPEC oil prices in 1973-74.

Nonetheless, by historical standards the world economy has adapted well to higher oil prices. Before World War II, dislocations of even lesser magnitude led to widespread financial defaults, rampant protectionism, and economic depressions. Because of better economic cooperation among countries, a more efficient international monetary system to channel funds to deficit countries, and the greater ability of individual countries to manage their economies, these calamities have been averted. Countries now rarely default on their foreign debts or introduce highly protectionist policies. They now solve payments problems mainly by directly and indirectly slowing economic growth, hoping to reduce the demand for imports. This process, however, always contains the danger that restraints on demand will trigger a global economic slowdown within a system that is now highly interdependent.

Policymakers have tried somewhat different methods of limiting economic growth in order to reduce their current account deficits. Fiscal and monetary restraints combined with an incomes policy are used most often. In the case of countries whose goods and services are not competitive in international markets, their currency values have been allowed to decline under the present system of managed floating exchange rates. While the impact of devaluation on exports tends to be felt gradually, the country almost immediately must accept lower economic growth as a result of the higher domestic price paid for imported goods. LDCs and smaller developed countries often restrict imports directly, although these controls may not slow growth as much as other policies in countries having a fairly sophisticated economic structure. For example, Brazilian entrepreneurs have responded by producing import-competing goods.

To judge how well non-OPEC countries are coping with the impact of the OPEC surplus on their economies, the paper first reports the size of the OPEC surplus and the distribution of its mirror image deficits among non-OPEC countries. Next, it considers the impact of inflation on the burden of these deficits. The trend in the size of the surplus—whether in nominal or real terms—is important because the surplus could grow so large that even the strongest economies would have difficulty in managing their deficits while it could shrink to a level that no longer exerts much disruptive influence. The distribution of the deficits indicates which countries may be having the most severe problems.

The paper then deals with the crux of the payments problems created by OPEC--whether countries with large current account deficits can

live with them. After all, the OPEC surpluses remain in the international monetary system, being deposited or invested in one or another non-OPEC country. But the ability of individual countries to attract these funds varies considerably.

We therefore identify a list of countries that have restrained or might have to restrain growth so as to reduce current account deficits. In doing so, we look at both the statistics regarding debt burden and at the perceptions of policymakers and creditors. The paper then discusses how these countries are likely to fare in 1977-80. Finally, the prospects beyond 1980 are reviewed briefly.

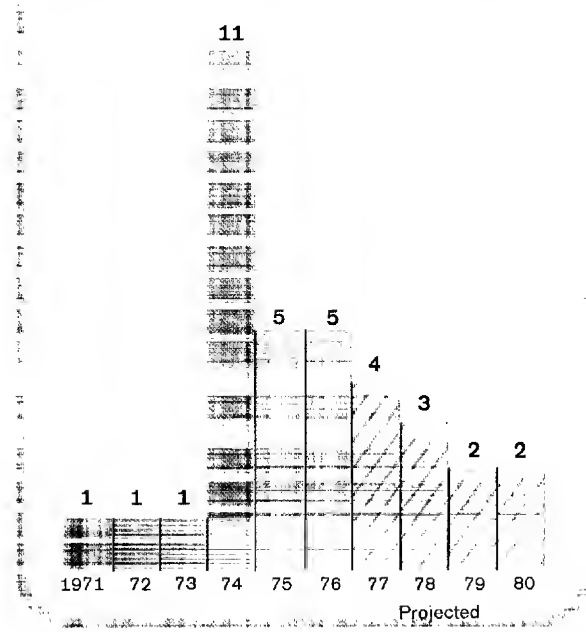
The Size and Distribution of the OPEC Surplus

Trends in Overall Size

The OPEC current account surplus has now stabilized. After sharp gyrations reflecting the initial price rise in 1974 and recession-depressed demand in 1975, the surplus was $40 billion[1] in 1976 and is expected to remain at roughly the same level in 1977. Since its peak in 1974, the surplus has declined by about 45 percent (see table 1). The decline reflects increasing OPEC imports and a faltering demand for OPEC oil which resulted from the global economic slowdown. Between 1973 and 1977, the average annual rate of growth of GNP in the developed

Figure 1

OPEC
Current Account Surplus as a Percent of Non-OPEC Exports



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[1]The current account balance includes goods, services (including reinvested earnings), and private transfers.

Table 1

Trends in Current Account Balances [1]

Billion US $

	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976 [2]
OPEC	1	0	0	0	3	4	7	73	33	40
Non-OPEC countries	5	4	3	3	3	2	5	−53	−39	−44
Developed countries [3]	9	8	8	11	13	12	17	−20	6	−12
LDCs	−5	−5	−4	−6	−9	−8	−8	−26	−34	−22
Communist countries	1	1	−1	−2	−1	−2	−4	−7	−12	−10
Statistical discrepancy	6	4	3	3	6	6	12	20	−6	−4

[1] Including goods, services (including reinvested earnings), and private transfers.
[2] Preliminary.
[3] Western Europe (including Yugoslavia), US, Japan, Australia, New Zealand, South Africa, and Israel.

countries will probably be less than one-half the rate attained during the 1960s.

Since 1972, moreover, the rapid pace of world inflation and continued expansion in world trade have eroded the real impact of the OPEC surplus. Between 1972 and 1976 the dollar price deflator for the trade of non-OPEC countries climbed by 80 percent, while trade volume increased by 20 percent. The inflation and rising volume of exports, combined with a declining OPEC surplus after 1974, reduced markedly the burden shouldered by non-OPEC countries, as measured by the relative importance of the surplus (and conversely the deficits) to non-OPEC trade. For example, the OPEC surplus as a percent of non-OPEC exports jumped from 1 percent to 11 percent in 1974 but slipped back to 5 percent in 1975 and 1976[2] (see figure 1).

[2]Here, and in other comparisons, the non-OPEC countries do not include the Communist nations. Therefore the OPEC surplus is not equal to the deficits of the non-OPEC countries discussed in this paper (see table 1).

Table 2

Major Developed Countries: Current Account Balances [1]

Billion US $

	Annual Average 1970-72	1975	1976 [2]
Total	**14.2**	**22.6**	7.4
United States [3]	1.4	21.2	8.6
Japan	5.0	−0.4	3.9
West Germany	2.1	7.5	6.8
France	0.8	1.1	−4.8
UK	2.0	−2.8	−1.1
Italy	2.5	0.9	−1.7
Canada	0.4	−4.7	−4.3

[1] Including goods, services (including reinvested earnings), and private transfers.

[2] Preliminary.

[3] The US current account figures include reinvested earnings from direct investments to conform with the IMF definitions used for all countries. Official US data do not include these flows. In 1974-76, US direct investment income reinvested abroad minus foreign direct investment income reinvested in the US amounted to a net inflow of $6 billion per year. If these earnings are excluded, the 1976 US current account surplus in 1976 would be $2.5 billion.

The high rate of inflation has also favored debtor nations at the expense of lenders. Despite the considerable increase in non-OPEC LDC borrowing in recent years, this group's outstanding real debt increased by only about one-fourth between 1972 and 1976 while nominal debt nearly tripled.[3] The ratio of annual debt obligations (principal repayments plus interest) to exports has remained roughly constant.

Distribution of the Current Account Deficits

If the current account deficits caused by the OPEC surplus were shared widely, non-OPEC payments problems would be minimal. But a relatively few countries ended up absorbing the bulk of the surplus (figure 2). Moreover, in 1976 these same countries had to offset an

[3].See appendix table B-3.

Table 3

Smaller Developed Countries: Current Account Balances [1]

Billion US $

	Annual Average 1970-72	1975	1976
Total	−0.5	−15.9	−19.7
EC countries	0.9	2.3	−0.3
Denmark	−0.3	−0.6	−2.2
Ireland	−0.2	−0.2	−0.5
Belgium	1.2	1.2	0
Netherlands	0.2	1.9	2.4
Other countries	−1.4	−18.2	−19.4
Spain	0.5	−3.5	−4.4
Norway	−0.2	−2.3	−3.5
Sweden	0.2	−1.1	−1.9
Israel	−0.4	−2.9	−2.3
Turkey	0	−1.9	−2.2
South Africa	−0.9	−2.5	−1.9
Austria	−0.1	−0.3	−1.5
Finland	−0.2	−2.2	−1.1
Portugal [2]	0.4	−0.7	−1.3
Greece	−0.4	−1.1	−1.1
New Zealand	0.1	−1.4	−0.7
Australia	−0.3	0.1	−1.1
Iceland	0	−1.0	0
Yugoslavia	−0.1	−1.0	0.1
Switzerland	0.2	2.7	3.6

[1] Includes goods, services (including reinvested earnings), and private transfers.

[2] 1972 only.

Figure 2

Countries With Current Account Deficits, 1976

Billion US $

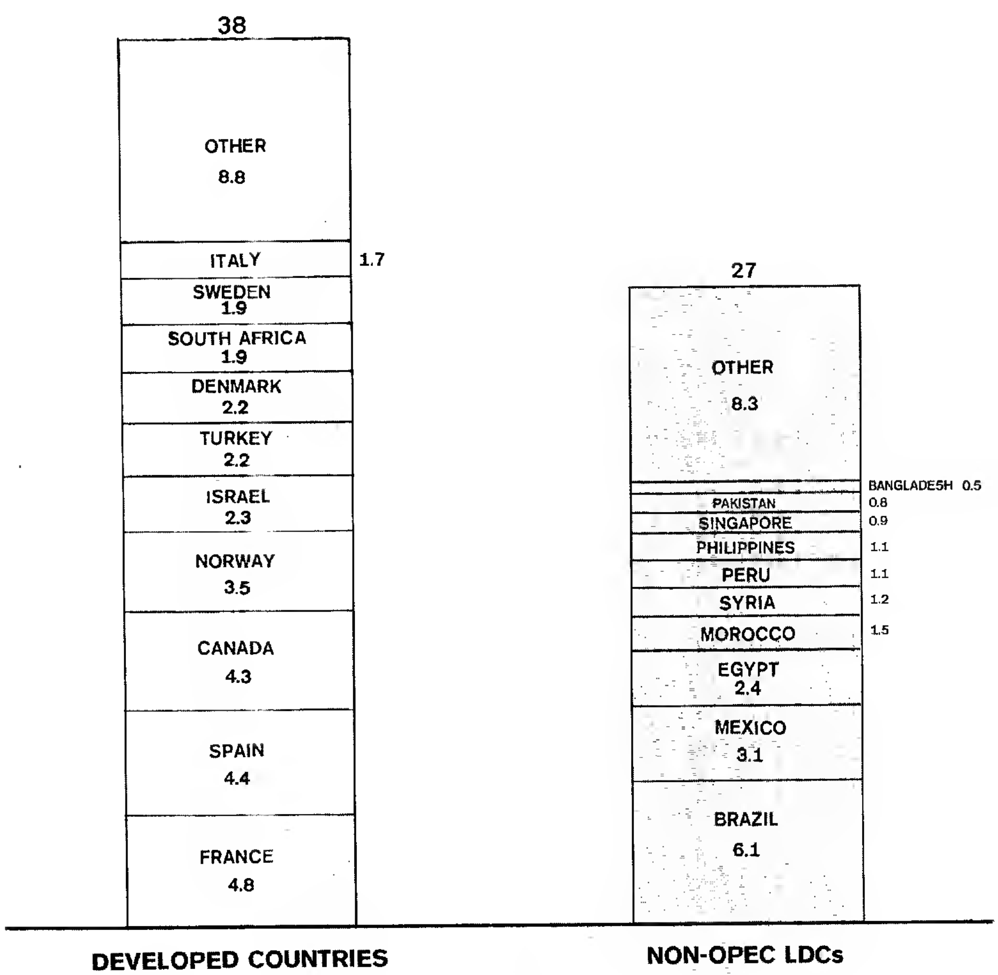

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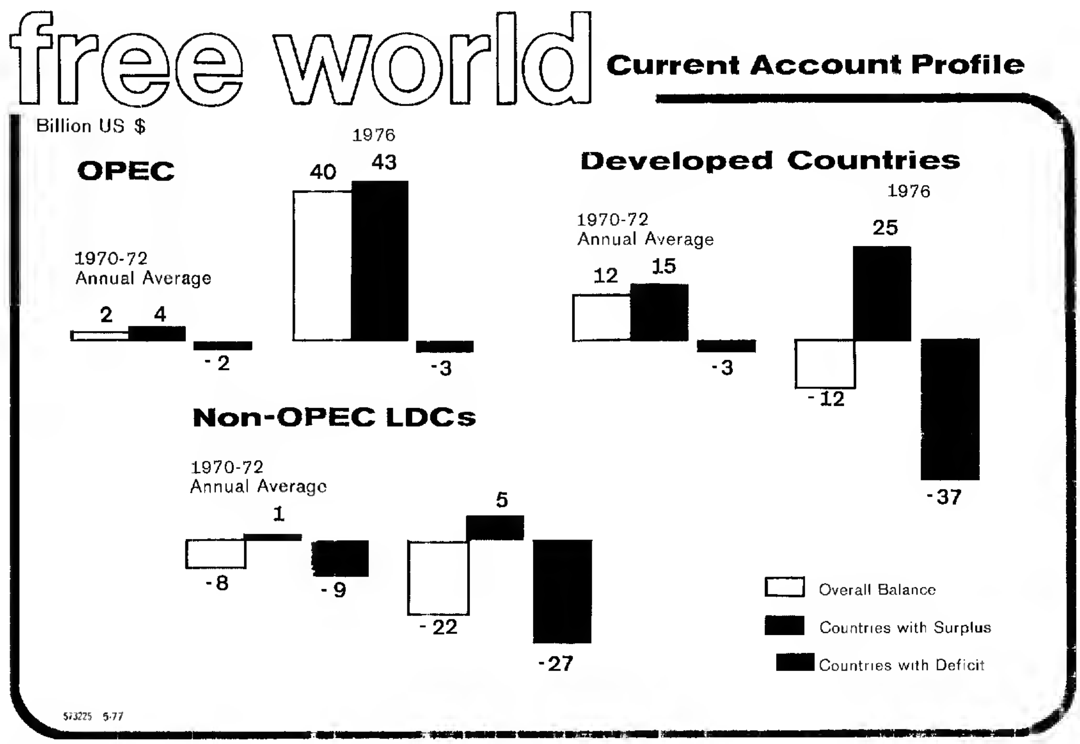
Figure 3



additional surplus of $30 billion jointly accumulated by 13 other non-OPEC countries.[4]

Ten countries accounted for more than one-half of the combined deficits of non-OPEC countries in 1976. In fact, four countries–Brazil, France, Spain, and Canada–had about 30 percent of the total. Roughly the same degree of concentration prevailed in both the developed[5] and LDC segments of the non-OPEC world.

The most striking changes occurred among the 27 developed countries (see tables 2 and 3). The combined total for those developed countries running deficits grew from $3 billion to $38 billion between the early 1970s and 1976, as can be seen in figure 3. At the other extreme, four countries–the US, West Germany, the Netherlands, and Switzerland–greatly improved their current account positions.

Among the more than 80 LDCs, a sharp current account deterioration took place in Brazil, Mexico, Peru, the Philippines, Egypt, Syria, and Morocco (see table 4). These seven countries accounted for more than three-fourths of the $18-billion increase in LDC deficits. The enlarged deficits of the three Muslim countries were due to increased imports financed by the much greater economic assistance provided by the Persian Gulf nations. At least seven LDCs ran current account surpluses in 1976–Argentina, Colombia, India, Taiwan, Malaysia, and the two small oil-producing countries of Brunei and Oman.

Aside from the countries with current account surpluses and those with large deficits, many countries have relatively small and easily manageable deficits. Most are LDCs; developed

[4]We use 1976 current account data throughout the paper as a benchmark in discussing a country's payment position. That year is relatively normal compared with 1974 and 1975, which reflect the immediate impact of the oil price rise and the following deep recession.

[5]Developed countries as defined for this paper are the OECD countries, Israel, South Africa, and Yugoslavia.

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Table 4

Non-OPEC LDCs: Current Account Balances [1]

Billion US $

	Annual Average 1970-72	1975	1976
Total	−7.7	−34.0	−22.0
Brazil	−1.1	−7.1	−6.1
Mexico	−1.0	−4.1	−3.1
Egypt	−0.5	−2.4	−2.4
Morocco	0.1	−0.5	−1.5
Peru	Negl.	−1.6	−1.1
Philippines	Negl.	−1.0	−1.1
Pakistan	−0.5	−1.1	−0.8
Syria	Negl.	−0.6	−1.2
Bangladesh	N.A.	−1.0	−0.5
Singapore	−0.6	−0.8	−0.9
South Korea	−0.7	−2.0	−0.3
Jamaica	−0.2	−0.3	−0.3
Thailand	−0.2	−0.6	−0.5
Tunisia	0	−0.2	−0.3
Zaire	−0.3	−0.7	−0.1
Bahrain	Negl.	−0.2	−0.4
Chile	−0.2	−0.6	Negl.
Zambia	−0.2	−0.6	−0.1
Colombia	−0.3	−0.1	0.7
Hong Kong	Negl.	−0.4	Negl.
Ivory Coast	−0.1	−0.4	−0.2
Sri Lanka	−0.1	−0.2	Negl.
Argentina	−0.3	−1.3	0.6
India	−0.5	−1.5	0.6
Taiwan	0.2	−0.5	0.3
Malaysia	−0.2	−0.2	0.7
Oman	0.2	0.7	0.8
Brunei	0.2	0.9	1.0
CACM [2]	−0.2	−0.7	−0.4
East Africa	−0.2	−0.4	−0.4
Other	−1.1	−4.5	−5.3

[1] Includes goods, services (including reinvested earnings) and private transfers.

[2] Central American Common Market.

countries tend to fall into the polar groups, having either current account surpluses or large deficits.

The Far Eastern LDCs have been most successful in achieving a favorable payments position despite the global recession in 1974-75. With the exception of the Philippines, all the Far Eastern LDCs now have a current account position better than or at least equal to that of the early 1970s. In Latin America and in Africa, many LDCs with sizable quantities of exportable coffee have been helped by the high coffee prices. Argentina, after applying rather severe austerity measures, has reached the point where its payments position is no longer a major constraint to economic growth. Buenos Aires' problems, however, have usually had their origin in political disarray; a reversion to that condition could easily undermine its economic gains. Finally, some non-OPEC LDCs—Tunisia, Trinidad and Tobago, and Malaysia—are net exporters of oil and have shared in the income accruing from higher oil prices.

The economic prospects for the poorest countries of southern Asia and sub-Sahara Africa have not been materially affected by the OPEC surplus. They have been able to maintain sluggish economic growth by attracting enough aid to finance the foreign exchange losses of $3 billion a year stemming from the higher cost of oil imports and the lower exports caused by the recession in developed countries. The increased aid, mostly concessional, has been provided by developed and OPEC countries in large part through multilateral channels. Indeed some of these least developed countries—particularly Muslim states such as Syria, Pakistan, and the Sudan—have gained on balance from the oil price hike because they have been given large amounts of OPEC aid.

The low-income south Asian countries, favored by excellent weather for the crops in the past two years, have had reasonably high economic growth, less inflation, and greatly improved foreign payments positions. India, for example, ran a $600-million current account surplus in 1976, its first in more than 20 years. The position of these countries, however, could change drastically as a result of a few bad harvests.

Summary Projections to 1980

Through 1980 the OPEC surplus could drop to about $30 billion under a plausible set of assumptions regarding economic growth and oil production in the North Sea, on the North

Slope, and in Mexico.[6] Chances are somewhat greater that the surplus will top $30 billion than fall below it. The projection's assumption that oil prices rise at the same rate as the prices of exports of industrial countries, although seemingly reasonable, depends greatly on Saudi policies.

During the next three years, OPEC states are likely to maintain sufficient pressure to keep oil prices rising at least as rapidly as the prices paid for imports. All of them except Saudi Arabia and some of the smaller Arab states need the increased revenue to maintain ambitious development programs and to continue to improve levels of living. Only Saudi Arabia has enough excess production capacity to hold down oil prices. So long as the Saudis continue to see close relations with the US and the West as being in their best interests, Riyadh is likely to try to confine oil price increases to the same rate that OPEC import prices go up. Price increases beyond our estimate would increase the OPEC surplus dramatically, however. If oil prices, for example, were to climb 10 percent a year while OPEC import prices continue to rise by 6 percent per annum, the OPEC surplus could reach $65 billion in 1980.

The other key assumption is that during 1977-80 GNP grows by 4.2 percent per year in developed countries (compared with 4.9 percent per year during 1961-72) and by 4.5 percent per year in non-OPEC LDCs (compared with 5.5 percent per year during 1961-72). While developed-country growth at a rate less than 4 percent a year would sharply reduce the OPEC surplus, such a low rate over a sustained period seems unlikely. For one thing, the considerable unemployment implied would be politically unacceptable. For the next few years, the developed-country growth rates are more likely to be above 4.2 percent, thus increasing the demand for OPEC oil. As an upper limit to the growth range, we use 5.5 percent a year, an expansion rate that the Organization for Economic Cooperation and Development estimates will be needed if most developed countries are to reach full employment by 1980. For each one-tenth of a percentage point above 4.2 percent that GNP increases, the OPEC annual current account surplus in 1980 rises by about $1 billion. Therefore, if GNP should grow by 5.5 percent per year, the OPEC surplus would reach about $50 billion in 1980.

In any case, the real burden of the OPEC surplus is likely to shrink through 1980. When measured in 1976 dollars, the surplus falls by 45 percent—from $40 billion in 1976 to $23 billion in 1980 (our base-case projection). The surplus as a percent of the exports of non-OPEC countries declines from 5 percent to 2 percent. In fact, the OPEC surplus would have to rise to at least $65 billion to maintain the 1976 ratio between the surplus and exports.

Regional Distribution

Developed countries are likely to gain most from the expected decline in the OPEC current account surplus through 1980. The current account deficits of the non-OPEC LDCs probably will increase somewhat. Given our base-case growth assumption (4.2 percent per year in

Table 5

Projections of Current Account Balances

Billion US $

	1976	Base Case	Faster GNP Growth	Faster GNP Growth and Higher Real Oil Prices
OPEC countries	40	30	50	65
Developed countries	-12	0 to 10	-5 to -20	-15 to -30
Non-OPEC LDCs	-22	-25 to -35	-25 to -40	-27 to -42
Communist countries	-4	-7	-7	-7
Statistical discrepancy	-3	0	0	0

[6]On the demand side, oil consumption is not curtailed, although its growth slows to 4 percent per year, compared with 7 percent from 1968-73, and on the supply side all available non-OPEC sources are tapped.

the developed countries and 4.5 percent in the non-OPEC LDCs) and constancy in the terms of trade between the two regions, the non-OPEC LDC deficit is expected to run anywhere between $25 billion and $35 billion. The upper end of this range approximates the amount that non-OPEC LDCs could borrow without straining their credit worthiness. Depending on the extent of LDC current account deficits, the developed countries could register anything from a near balanced current account to a $10-billion surplus.

If world GNP grows at our assumed upper limit of 5.5 percent per year, the developed country deficits would remain at roughly the 1976 level rather than improve, as in the base case. The non-OPEC LDC deficit would increase only slightly because the group's increased imports of oil and other goods and services would be nearly offset by expanded sales to developed countries. Thus the developed countries would end up absorbing the bulk of larger OPEC surplus.

This does not mean that non-OPEC countries should pursue lower growth targets just to reduce the OPEC surplus. For many countries the larger current account deficits produced by higher economic growth will not necessarily be any more difficult to finance than the smaller deficits created by lower growth. The increased exports that generally go along with higher economic growth help to keep down the debt service burden of the deficit countries and provide a more favorable atmosphere for increased lending.

Moreover, although the economies of deficit countries would still be restrained by foreign payments problems, they would be able to remove their growth restraints sooner or relax them somewhat as a consequence of the more rapid global economic growth pace. If the economies of non-OPEC countries with favorable payments positions were expanding at a faster clip, then deficit country exports would accelerate. Unless the deficit countries control their domestic demand, however, the higher exports would be largely offset by the imports needed to produce export goods and, more importantly, by the effect of rising domestic incomes on purchases from abroad.

If, along with higher growth, oil prices rise by 10 percent per year while prices for other traded goods and services increase by 6 percent annually, the developed countries again absorb most of the increment in the OPEC surplus since they buy most of the oil. The LDC deficit would be $2 billion more in 1980 in this situation. Measured against expected exports, the burden of current account deficits on developed countries, when higher real oil prices are combined with rapid growth, would not be much greater in 1980 than at present.

Numerous shifts are likely to occur in the current account positions of countries within each non-OPEC region. Although these changes cannot be predicted with any certainty given the many forces at work, one fairly large shift is highly likely: the current account positions of the UK, Norway, and Mexico will improve with their burgeoning oil production and exports. Since most of this oil will be purchased by developed countries, about one-half the $10-billion to $20-billion base-case gain in the developed country current account position would go to these three nations. Further reductions in the deficits of those developed countries with deficits would have to come from countries with surpluses, such as West Germany and Japan. Using our high-growth scenario, if the developed countries with deficits are to have smaller deficits they will have to be at the expense of reduced surpluses in non-OPEC countries. But, as we have seen, we would expect that in this higher growth mode these surpluses would shrink. In our third case—high growth combined with increasing oil prices—the sum of the deficits of those developed countries that have deficits would not fall much even if all current non-OPEC country surpluses were eliminated. The reduction in the surpluses of those developed countries in a surplus position would about offset the increase in the surpluses of oil-exporting countries.

The Problem Countries

Identification—More than Arithmetic

Many countries have large current account deficits, but not all of them are in serious difficulty. To identify the problem countries, we use the criterion that payments problems could be a major brake on economic growth. The 22 countries listed below qualify under this standard—at least tentatively—and will be examined further to see whether they deserve to be labeled as a problem country.

Major Developed Countries	Smaller Developed Countries	Less Developed Countries
Canada	Austria	Brazil
France	Denmark	Chile
Italy	Finland	Egypt
	Israel	Jamaica
	New Zealand	Morocco
	Portugal	Peru
	South Africa	Philippines
	Spain	Zaire
	Sweden	Zambia
	Turkey	

Any list of this nature must be compiled with a large dose of judgment. Although they had large deficits in 1975 and 1976, the UK and Mexico are excluded because rising oil exports are expected to produce current account surpluses by 1980. Pakistan and Bangladesh are receiving sufficient aid to maintain their historic growth rates, despite their larger deficits. Norway's large deficit mainly reflects the substantial foreign investment in the North Sea oil fields.

Several small countries, such as Zaire and Jamaica, were added to the list of potential problem countries because their deficits are large when compared with the size of their economies. Egypt and Chile are special cases. Egypt was included even though its larger deficit resulted from a sharp jump in OPEC aid. Cairo faces severe payments problems in its efforts to overcome decades of economic mismanagement. Although Chile's deficit was eliminated in 1976, its heavy debt burden will compete with imports during the next few years. The junta has not tried to renegotiate a debt stretchout with its creditors since 1975 because it believes such requests will founder on the question of Chilean human rights violations.

The list of course will change as time passes and unforeseen events develop. For example, Argentina is not included because measures taken over the past few years have corrected the worst of its payments problems; erratic policies or increased political instability could quickly alter this situation. Similarly, India's currently favorable situation largely reflects excellent weather and could turn around quickly.

Country Profiles

For a better understanding of the condition of the 22 countries on our list we analyzed several commonly used statistical measures of payments difficulties. In each case, the trend between 1970-72 and 1976 as well as the current position was assessed. The summary impressions are as follows:

- The current account position of 17 countries deteriorated sharply in real terms. Chile, Zambia, Zaire, Jamaica, and South Africa held their deficits in check by restraining growth and therefore curtailing imports.
- The current account balance as a percentage of exports moved up sharply in all countries except Chile, Zaire, Jamaica, Zambia, and South Africa (figure 4). The percentage in most developed countries rose from near zero in the early 1970s to a range of between 5 and 30 percent in 1976. Israel and Turkey had higher percentages—42 and 50 percent respectively. Among the LDCs the percentage climbed sharply in Brazil, Egypt, Morocco, and Peru—where it topped the 50-percent mark in 1976. In other LDCs on our list, it stayed between 20 and 35 percent.
- The real external debt of nearly all listed countries rose rapidly when compared with the average for its group—developed or LDCs. The exceptions were Chile and Zambia whose real debt remained constant. West European debt increased especially steeply because large foreign borrowing is a new experience for these countries.

Figure 4

Current Account Balance as Percent of Exports of Goods and Services

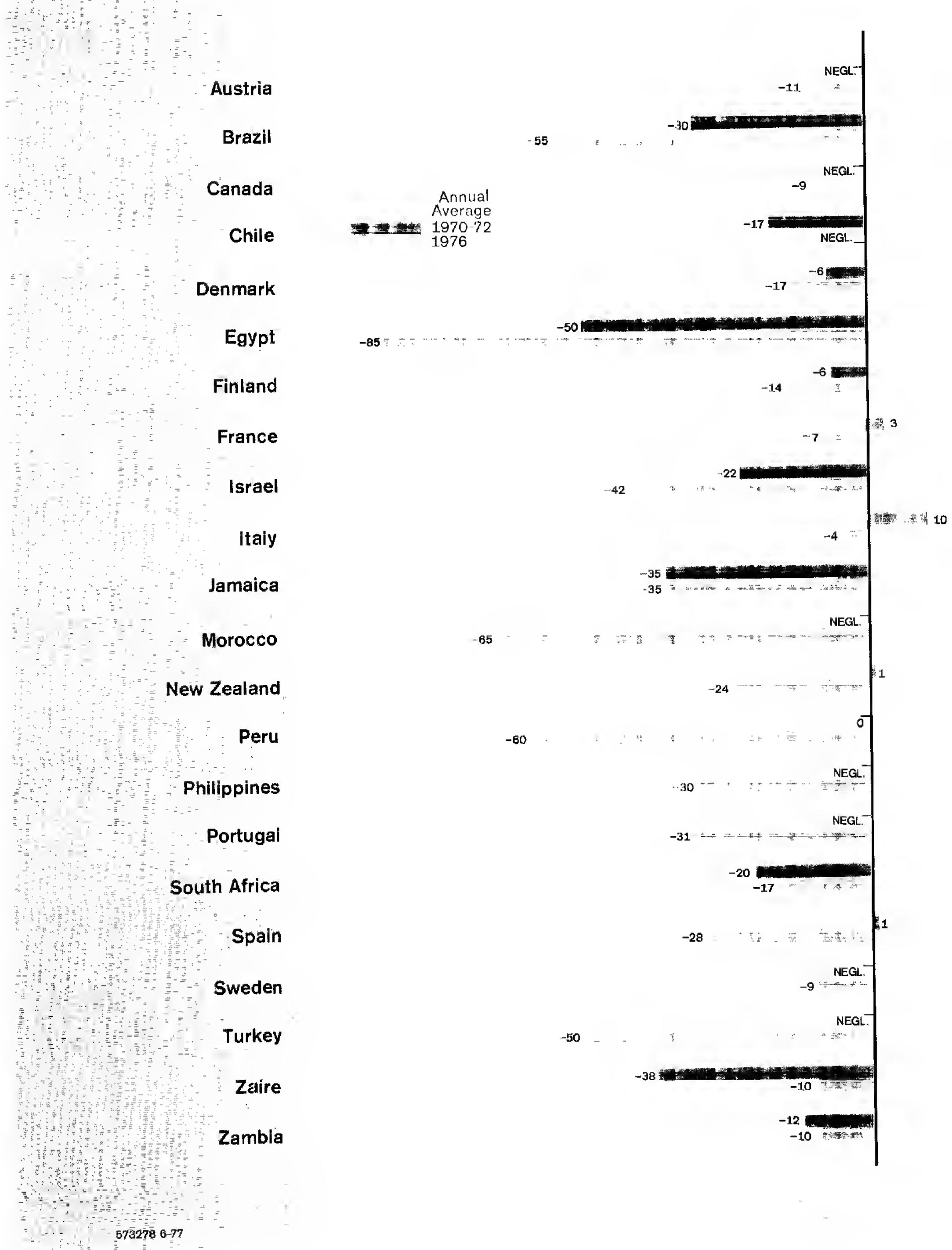
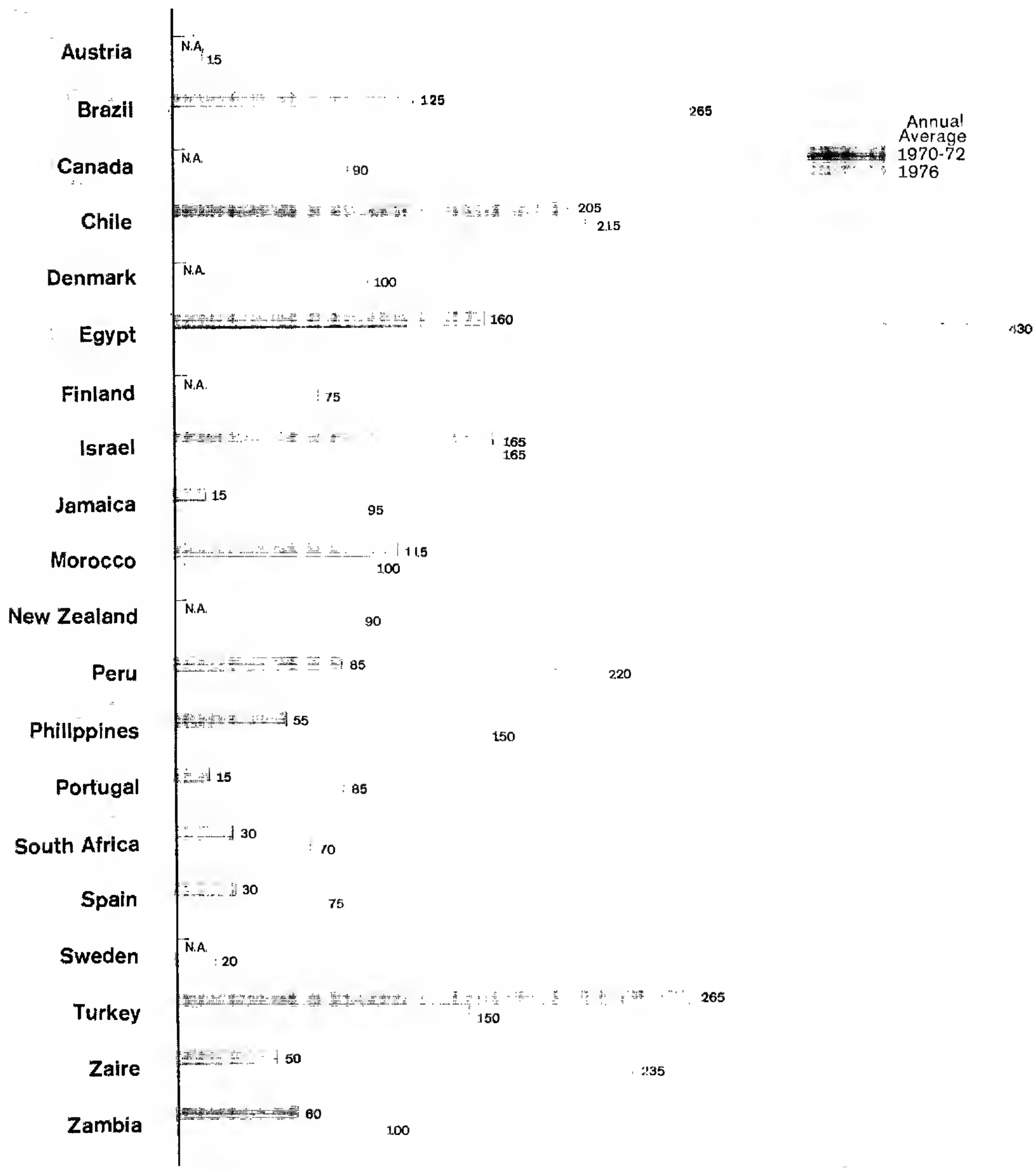


Figure 5

Ratio of External Debt to Exports of Goods and Services



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- The relative debt outstanding (the ratio of the debt to exports) climbed in all of the listed countries except Chile, Israel, Morocco, and Turkey (figure 5). In most developed countries the ratio remained low to moderate ranging from 15 percent for Austria to 100 percent for Denmark with most countries clustering around 70 percent. Israel and Turkey, however, had fairly high ratios of 165 and 150 percent, respectively. Among the LDCs, the ratio falls mainly in the 200-300 percent range with Egypt exceeding 400 percent and Morocco, Zambia, and Jamaica standing near 100 percent.

- The debt service ratio (the ratio of annual debt amortization and interest to exports of goods and services) also climbed sharply in all countries except Egypt, Israel, Morocco, the Philippines, Portugal, and Turkey. Among the developed countries—except Israel (21 percent) and Spain (16 percent)—the ratio remained at 11 percent or less. The typical LDC debt service ratio of most of our LDCs ran to more than 30 percent. Brazil led with 46 percent. The average of non-OPEC LDCs during the 1970s was 16 percent a year.

- The ratio of foreign reserves to imports dropped sharply between the early 1970s and 1976 in all the countries except Chile, Morocco, the Philippines, and Sweden (see tables 6 and 7). But if gold is valued at triple the official price of $42.22 per ounce ($126.66) the ratios of the developed countries on the list would have declined only slightly.

Although in most of the 22 countries the international payments indicators have deteriorated since the early 1970s, there are clear differences among them. The most striking difference is between the West European states, which only recently have been running large deficits, and the LDCs. The LDCs are used to coping with a heavy debt burden, and many of them consider borrowing and growing debt as essential to their economic development. Most developed countries, on the other hand, had been net exporters of capital before 1974. They now must adjust to their new role as major borrowers.

While heavy borrowing is new to the West European countries, it is normal for some other developed countries. Japan was extremely successful during the 1960s in obtaining large amounts of foreign capital to sustain rapid economic growth—despite a debt burden that exceeded that of most LDCs.

Why these countries slipped into payments difficulty can best be seen by comparing trends in their foreign trade with trends in other non-OPEC countries. Figure 6 shows that in 15

Table 6

Developed Countries: Reserves as a Share of Imports of Goods and Services

Percent

	Annual Average 1970-72	1975	1976 [1]
Potential Problem Countries			
Austria	43	30	41
Canada	25	12	15
Denmark	13	6	7
Finland	18	6	7
France	28	12	23
Israel	27	18	19
Italy	30	14	28
New Zealand	31	12	12
Portugal	82	28	74
South Africa	19	8	16
Spain	53	27	33
Sweden	13	11	13
Turkey	60	19	22
Other Countries			
Australia	54	19	23
Belgium	25	15	24
Greece	27	15	22
Japan	55	22	24
Netherlands	22	16	27
Norway	20	14	14
Switzerland	76	70	106
United Kingdom	18	6	9
United States	20	11	25
West Germany	40	26	34
Yugoslavia	8	25	25
Average [2]	**30**	**16**	**26**

[1] With gold valued at $126.66 per troy ounce or triple the official price.

[2] Based on total reserves and imports.

of the 22 countries on the potential problem list exports grew much slower than the average between the early 1970s and 1976, indicating that they were losing their share of the world market. The copper-producing countries of Peru, Zambia, and Zaire fared the worst as copper was one of the few commodities whose real value dropped sharply during the 1970s. At the other extreme, Brazilian and Spanish exports rose much more rapidly than the average. In eight countries, imports increased much slower than the global average, with Zambia, Zaire, Jamaica, and Chile showing the smallest growth. Eight countries–France, Spain, Brazil,

Table 7

Non-OPEC LDCs: Reserves as a Share of Imports of Goods and Services

Percent

	Annual Average 1970-72	1976	1976 [1]
Potential Problem Countries			
Brazil	50	38	
Chile	21	22	27
Egypt	13	6	10
Jamaica	22	2	
Morocco	22	15	
Peru	33	13	17
Philippines	29	33	35
Zaire	22	6	
Zambia	38	8	
Other Countries			
Argentina	20	40	48
Bahrain	25	22	
Bangladesh	11	33	
Bolivia	33	25	
Colombia	14	52	57
Cyprus	100	50	
El Salvador	33	25	
Ethiopia	33	60	
Guatemala	25	42	
India	35	53	62
Jordan	150	56	67
Kenya	29	23	
Malaysia	44	53	57
Mexico	23	12	15
North Yemen	50	140	
Oman	50	43	
Pakistan	14	18	21
Paraguay	36	67	
Singapore	45	35	
South Korea	24	30	
Syria	25	19	
Taiwan	35	18	21
Thailand	56	46	51
Trinidad and Tobago	12	40	
Tunisia	20	21	
Uruguay	67	38	
Average [2]	33	34	36

[1] With gold valued at $126.66 per troy ounce or triple the official price.

[2] Based on total reserves and imports.

Figure 6

Foreign Trade Performance from 1970-72 to 1976 [1]

Low Export Growth

Combined with low import growth

Zaire	New Zealand
Zambia	South Africa
Portugal	Chile
Jamaica	Canada

Combined with average import growth

- Italy
- Denmark
- Sweden

Combined with high import growth

Philippines	Peru
Morocco	Egypt

Average Export Growth

Combined with average import growth

- Israel
- Finland
- Austria

Combined with high import growth

- France

High Export Growth

Combined with high import growth

- Turkey
- Spain
- Brazil

Large Difference Between Export and Import Growth [2]

Egypt	Morocco	Portugal	Spain	Italy
Peru	Philippines	New Zealand	Denmark	Canada
Turkey	Brazil	Zambia	France	Sweden

[1] Low export growth=less than 145%
Low import growth=less than 150%
Average export growth=146 to 160%
Average import growth=150 to 170%
High export growth=more than 160%
High export growth=more than 170%

[2] Difference of more than 20 percentage points between the rate of growth of exports and the rate of growth of imports.

Egypt, Morocco, Turkey, the Philippines, and Peru—experienced relatively rapid import expansion.

Reviewing these trends, we find that import growth far outpaced export growth in 15 countries. The largest differentials were reflected in the Peruvian and Egyptian current account balances. The rise in Egyptian imports was financed by greatly increased OPEC aid, while Peru's higher imports can be traced to a few large, privately financed projects. The growing French trade deficit is a consequence of a much higher import growth than took place in the other major European countries.

In Italy, Sweden, Denmark, New Zealand, Portugal, and the copper-producing countries the main international trade problem was faltering exports. Portugal's foreign sales slowed because it lost colonial markets and experienced extensive domestic disorder. While Brazilian and Spanish exports grew rapidly, imports climbed even faster. Only in Chile, Jamaica, and Israel did exports grow faster than imports. Austrian and Finnish imports increased slightly faster than exports, and this imbalance together with rising service deficits led to large current account deficits. Clearly, the countries on our list arrived at their present state along dissimilar paths.

Political Determinants

Economic factors can go only so far in explaining why countries may find it hard to deal with their current account deficits. Political and social conditions are often at the root of the differences. France, the UK, Italy, and most smaller European countries were hit by the same economic shock as West Germany and Japan in 1974. Many of these countries, however, found themselves in difficult political circumstances that prevented them from dealing as effectively with the OPEC-created crisis. Economic mismanagement was a prime cause of Mexico's difficulties, and a combination of poor management and political instability compounded the problems of the four major copper producers—Zambia, Zaire, Chile, and Peru.

In South Africa, increased military purchases and growing apprehension over dependence on foreign capital forced the government to slow economic expansion in order to reduce civilian imports and capital inflows. Israeli and Egyptian problems stem in large part from their enormous defense burdens. In most cases, therefore, the OPEC-generated crisis intensified political-economic weaknesses that already existed. As a result, the listed countries accumulated the bulk of the deficits and the most difficult choices between current balance improvement and economic growth.

Outlook to 1980

Manageable Deficits

In assessing the size of the current account deficits that the 22 countries will be able to manage through 1980, we found no simple formula and expect none to be discovered. This is clear from the considerable efforts made by financial institutions to develop criteria to rank countries according to their credit worthiness. At best these attempts have placed countries into broad categories that have little meaning; at worst they misrepresent differences among countries by defining categories too narrowly.

The problem is that differences among countries are too great to allow for categories based on any particular set of economic and political data, especially when only countries with poor payments indicators are being assessed. Much more crucial are qualitative political-economic evaluations and a knowledge of the perceptions of the country's future held by its leaders and its creditors. Lenders, for example, often view a country with a small deficit and light debt burden as a poor risk because of judgments related to the country's export potential, political stability, and management capability. Individual policymakers frequently have very different ideas as to the debt burden their country should assume.

Thus the concept of a manageable current account deficit is elusive. We know that it must blend judgment with knowledge of foreign trade trends, capital movements, the debt burden, the political environment, numerous per-

ceptions, and the relationship between a country's growth and payments goals. It is in this context that we discuss the prospects for the 22 countries through 1980.

Prospects for Individual Countries

Most of the countries on our list will either continue to have large current account deficits or reduce them only at the expense of economic growth. Nevertheless, there are pronounced differences in the prospects for individual countries. Appendix A discusses the outlook country-by-country. Its findings are summarized in the following paragraphs:

Large deficits. France, Brazil, Canada, and Spain are best situated to manage large deficits—$12 billion a year or more for the four together—and still achieve satisfactory rates of growth of GNP (Brazil 6 to 8 percent per year; Spain about 5 percent; and France and Canada 4 to 5 percent). Despite its very large debt burdens, investors have confidence in Brazil because of its excellent economic and political record and the likelihood that its exports will continue to expand rapidly. Spain also enjoys investor confidence, and it has a much smaller debt burden than Brazil. In addition, the new regime in Madrid seems intent on providing a more congenial atmosphere for foreign investors. Although the French intensely dislike running large current account deficits, they probably will accept them in order to achieve their priority economic growth goals. Because its foreign debt is still small, France would have little trouble in financing its deficits in private capital markets. Canada is in position to attract foreign capital to develop its vast mineral resources. The massive borrowing involved could be readily financed given the rapid export expansion that would result from such investments.

Political problems, however, could affect these favorable economic and financial factors. France's payments problems could be pushed into the critical range by a leftist coalition election victory in 1978, which almost certainly would trigger large-scale capital flight and a loss of foreign investor confidence. Paris' ability to overcome these difficulties would depend on the delineation and the timing of policies set by the new government. If the coalition pursued its relatively moderate, avowed program, capital outflow would ebb though businessmen would hesitate to make new investments. The economic problems would be especially severe, however, if policy differences among the coalition members led to legislative immobility and massive uncertainties.

Although Canada has obtained large amounts of private foreign capital in recent years, Quebec separatism and other contentious political issues may interrupt this flow. Some elements in the international banking community are already taking a close look at investment in Canada.

Spain faces the difficult task of moving from a dictatorship to a democracy while coping with strong separatist movements. The task could be complicated by the need to undertake austerity moves to bridle the country's high inflation. Spain does, however, possess a dynamic economy and a fairly large and prosperous middle class to help it through this transition.

Although Brazil's political situation now seems firm, the process of choosing a new president combined with continuing inflation problems poses some threat to this stability.

Reduced deficits and slow growth. Italy, Denmark, Sweden, Finland, and New Zealand probably will have to continue to have relatively slow growth to keep their current account deficits manageable (Italy, 3 to 4 percent per year; the others, 2 to 3 percent). Although their debts are not large, these countries believe they must reduce their large deficits even at the sacrifice of economic growth. The five have in common a poor outlook for export growth, reflecting high wages and in some cases a concentration of productive capacity in goods whose demand is not expected to grow much. Each realizes that structural changes are needed to overcome their economic problems and that such an effort will take some time. So far, corrective action has not made much headway because traditional industries have maneuvered

to protect their interests and workers have lobbied to maintain their social-welfare benefits.

Political pressures will also decide how the five governments balance their economic growth and foreign payments goals. They will be susceptible to seesaw policies. Demands to stimulate economic activity will well up when the payments situation improves, but expansion will balloon the current account deficit, leading to a return to deflationary policies. Except for Italy, the five countries should be able to finance their deficits in private capital markets. The Scandinavian countries and New Zealand have small debt burdens and highly stable governments. Lenders eagerly seek the financial issues of these countries in order to diversify portfolios. Rome, on the other hand, will have to depend heavily on official capital flows.

Small deficits and slow growth. Peru, Zaire, Zambia, and Jamaica will be locked into halting economic growth (2 to 3 percent per year) and small current account deficits. Private lenders and the IMF will insist that the governments of these countries act to improve their economic management. The necessary policy actions could restrain growth for a number of years. Alternatively, if they do not go along and default on their debt they will have a hard time raising the foreign capital needed to finance the imports they need to avoid slow growth. The only chance to improve this situation seems to be the appearance of a commodity boom. Usually, however, prices do not stay high enough long enough to provide more than temporary relief.

Large deficits financed by official capital flows. Israel, Egypt, and Morocco are likely to run large deficits while achieving reasonably high growth rates (5 percent per year or higher). This forecast assumes a continuation of considerable concessional aid from their benefactors—the US and the Persian Gulf oil producers. Israel and Egypt should be able to reduce their reliance on this aid while gradually reducing their deficits. Morocco, on the other hand, has a much less favorable export outlook and will need a great deal more money from the Saudis if it is to handle the large deficit required to sustain high GNP growth.

Growing payments problems. The Philippines and Turkey probably will have to cut economic growth because of payments constraints. Turkey's problem is more imminent as New York bankers have already turned down its loan requests. Until now, Ankara has continued to run the large deficits needed to sustain rapid growth because it feared the political consequences of instituting adjustment measures. Manila believes that it can generate sufficient export growth to maintain economic expansion while holding down the current account deficit to a manageable level of $1 billion annually. The export assumption seems dubious, and thus in a few years Manila may have to impose austerity measures to accommodate its numerous creditors.

The special cases. The prospects for four problem countries depend largely on special situations.

Portugal, for example, will have to cope for many years with the aftermath of the 1974 political crisis. This will probably mean slow growth coupled with an annual current account deficit of perhaps $1 billion. Lack of confidence in the country's future will require that the deficit be financed mainly from governmental sources.

South Africa could manage annual deficits of $1 billion to $1.5 billion and at least match the 4-percent economic growth rates of the early 1970s. Exports should increase rapidly because several major development projects are coming on stream. But this assumes that no new major foreign pressures will be applied to speed up the removal of South Africa's racial barriers. If foreign political pressures continue to build, Pretoria would be likely to slow economic growth to reduce dependence on foreign capital.

Chile has subdued its foreign payments problem by severe domestic austerity actions. Through 1980, Santiago should be able to

attract sufficient foreign direct investment and private loans to service its relatively high debt service payments, run a current account deficit approaching $500 million, and achieve real economic growth of 5 percent a year or more. Again, however, the projection depends on an ability to avoid political upheavals.

Austria's problems are mainly cyclical in nature. The country should be able to maintain growth while gradually reducing its large deficit to what Vienna perceives as a more manageable level—less than $500 million.

Implications for World Economic Stability

Since the chances are slim that a large number of the problem countries, each with diverse problems, will slip into serious economic trouble, the world economy should be able to live with the OPEC surplus over the next few years at least. Moreover, because most of the problem countries are small in economic terms, their rates of economic growth should not materially affect the global picture.

The greatest potential danger is in Western Europe where nine of our listed problem countries are found. They are all part of a well-integrated regional economy and thus dependent on one another for export markets and economic growth. A slowdown in a number of these countries, especially if France and Italy were included, could easily spread to countries with a more favorable economic position. To assess the outcome, we used a linked macroeconomic model which estimates the relationship between economic growth and current account positions. If the nine troubled European countries reduce their current account deficits to near zero by 1980, the model forecasts that the region's growth would dip to less than 3 percent annually, compared with a base forecast of 4 percent. Growth rates in individual countries would drop by up to 4 percentage points, ranging from 1 percentage point for West Germany to 4 for Turkey. Such an outcome in the next few years would come at a particularly bad time. Unemployment is high in Western Europe and likely to grow during the next five years due to demographic factors. France, Italy, and Spain are also coping with serious political challenges.

OPEC price hikes far in excess of increases in other prices could also spoil the outlook described above. We have seen that an annual oil price increase of 10 percent could easily lead to a $65-billion deficit in non-OPEC countries by 1980.

Finally, financial defaults by one or more countries, although unlikely, cannot be dismissed as a possibility. A debtor regime, for example, might make a political decision to default while looking for additional domestic political support, or regulatory agencies in creditor countries could cause defaults by seeking too aggressively to reduce the foreign exposure of its financial institutions. Nevertheless, the chances are diminishing that banks under pressure from regulatory agencies will sharply curtail loans to LDCs. The rise of net private borrowing by LDCs is expected to decline through 1980 compared with the 1973-76 pace because of lower or stable LDC current account deficits and because of growing inflows of official funds.

Beyond 1980

Beyond 1980, the possibilities for the current account balances of non-OPEC countries multiply, and forecasts are extremely risky. The relatively optimistic projection for 1977-80 depended heavily on a relatively stable real price for oil. A renewed upsurge in oil prices would destroy the basis for adjustment to OPEC surpluses.

Some sense of problems policymakers could face can be gained by looking at a scenario that accords with our current estimates of the post-1980 energy outlook. OPEC sales could pick up dramatically in the 1980s because global energy demand would outstrip the ability of non-OPEC countries to increase supplies. Assuming a continuation of our low non-OPEC growth rates (4.5 percent a year), oil prices increasing at about the same rate as other prices, and OPEC exports reaching 45 million b/d, the OPEC current account surplus in 1985 would be more than $100 billion. In real terms

the burden of the mirror deficits on non-OPEC countries would be about equal to the current level. The real danger is that Saudi Arabia, having used up its excess producing capacity would no longer be able to control prices. Under these circumstances, the burden could greatly surpass the 1974 level. The weaker non-OPEC position might well elicit political concessions in exchange for OPEC price restraints. The alternative might be a wrenching slowdown in economic activity aimed at cutting non-OPEC deficits to a more manageable level.

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APPENDIX A

Prospect for the Current Account Balances of Individual Problem Countries

Developed Countries

AUSTRIA

Austria had an exceptionally large current account deficit in 1976, reflecting both higher economic growth than some of its trading partners and some special circumstances. Energy imports were up because of increased demand, because purchases were made in anticipation of the OPEC price hike, and because a drought reduced the output of hydroelectric plants. Although the deficit is likely to be less this year, it is still expected to top $1 billion.

Vienna is now trying to close the gap by promoting exports. If exports do not respond, and especially if this season's tourist arrivals do not reach anticipated levels, the government may try to improve the price competitiveness of Austrian goods by relaxing its policy of tying the shilling to the German mark. Meanwhile, Austria should have little trouble financing its deficit in view of its stable political situation and low debt burden.

Austria: Balance of Payments*

Billion US $

	1970	1971	1972	1973	1974	1975	1976
Trade balance	−0.6	−0.9	−1.2	−1.5	−1.4	−1.4	−2.5
Exports	2.9	3.2	3.9	5.4	7.6	7.7	8.7
Imports	−3.5	−4.1	−5.1	−6.9	−9.0	−9.1	−11.2
Services and private transactions	0.6	0.8	1.0	1.2	1.0	1.1	1.0
Current account balance	**Negl.**	**−0.1**	**−0.2**	**−0.3**	**−0.4**	**−0.3**	**−1.5**
Medium- and long-term capital	Negl.	Negl.	0.1	−0.2	0.4	1.1	−0.1
Official flows	Negl.	−0.1	−0.1	−0.1	0.1	0.9	0.2
Direct investment	0.1	Negl.	Negl.	0.1	0.1	0.1	0.1
Private loans	−0.1	Negl.	0.1	−0.2	0.1	Negl.	−0.3
Short-term capital	0.1	0.3	0.3	0.1	0.3	0.1	0.8
Errors and omissions	0.1	0.2	0.2	0.3	0.2	0.3	0.7
Allocations of SDRs	Negl.	Negl.	Negl	0	0	0	0
Change in reserves and related items	**0.2**	**0.4**	**0.4**	**−0.2**	**0.4**	**1.2**	**−0.1**

*Because of rounding, components may not add to the totals shown.

CANADA

Canada can be expected to incur relatively large current account deficits over the next several years. The deficits probably will not fall much below the current level of $4.3 billion and could possibly rise to $10 billion by 1980. Interest payments resulting from recent record levels of foreign borrowing pushed the service deficit to about $5.7 billion in 1976. By 1980, expected continued dependence on foreign debt capital will result in a debt service deficit of about $7 billion.

To keep the current account deficit below $5 billion in 1980, Canada will have to achieve a merchandise trade surplus of $1 billion to $2 billion annually over the next several years. Ottawa's plans to phase out crude oil exports by 1980 and fast rising production costs for manufactured exports make this unlikely. Moreover, even a strong pickup in the volume of Canadian commodity exports would only partially offset the expected $2-billion increase in the energy trade deficit.

Although analysis of external accounts indicates that Canada could manage a current account deficit of $10 billion in 1980 (at this level the current account deficit would amount to 13 percent of total exports of goods and services while external debt would about equal total exports), political uncertainties complicate the problem. The recent separatist election victory in Quebec has already heightened investor uncertainty.

Rapid development of Canada's resources—especially energy supplies—could ease the threat of a balance of payments problem by

Canada: Balance of Payments*

Billion US $

	1970	1971	1972	1973	1974	1975	1976
Trade balance	2.9	2.8	2.1	3.0	1.9	−0.4	1.3
Exports	16.1	18.4	21.1	26.4	34.3	34.0	39.6
Imports	−13.3	−15.6	−19.0	−23.4	−32.4	−34.4	−38.3
Services and private transactions	−1.9	−2.4	−2.5	−2.9	−3.5	−4.3	−5.7
Current account balance	**0.9**	**0.4**	**−0.4**	**0.1**	**−1.5**	**−4.7**	**−4.3**
Medium- and long-term capital	0.8	0.8	1.6	0.5	0.9	3.9	7.6
Official flows	0.2	−0.2	0.4	−0.3	−0.1	0.9	1.3
Direct investment	0.5	0.7	0.2	Negl.	−0.1	Negl.	−1.0
Private loans	Negl.	0.4	1.1	0.8	1.0	2.9	7.3
Short-term capital	−0.3	−0.4	−1.0	−1.0	0.7	0.5	−2.8
Errors and omissions	Negl.	Negl.	Negl.	Negl.	Negl.	Negl.	Negl.
Allocations of SDRs	0.1	0.1	0.1	0	0	0	0
Change in reserves and related items	**1.6**	**0.9**	**0.3**	**−0.5**	**Negl.**	**−0.4**	**0.5**

*Because of rounding, components may not add to the totals shown.

attracting new foreign investment and boosting export earnings. Prospects for formulating a comprehensive national resource policy in the current political environment are dim, however. Federal-provincial disputes over taxation and resource control since 1973 remain a stumbling block to accelerating oil exploration and developing tar sands production in the western provinces, although some recent progress has been made. Ottawa also has to consider eastern Canada's concern that massive resource development programs will push up the value of the Canadian dollar, further eroding the international competitive position of manufacturing industries. More recently, the start of a national debate over balancing native rights and environmental concerns in the Arctic with domestic energy needs is certain to complicate and perhaps hinder chances for rapid development in the frontier regions.

DENMARK

In the wake of an import spending spree touched off by anti-recession measures in 1975, the Danish government resorted to more restrictive fiscal and monetary policies in early 1976 to bring its deteriorating trade balance under control. In August the government endeavored to curb domestic inflation, slow import growth, and improve export competitiveness by instituting an incomes policy. Although the last quarters of 1976 showed some improvement in its current account, Denmark still registered a record deficit of $2.2 billion for the year.

Copenhagen now feels that tight income policies may be required for a number of years. Present foreign reserves amount to less than one month's imports of goods and services, and Denmark's foreign debt is growing at an unsustainable pace. As a percentage of exports of goods and services, Copenhagen's debt is the highest among the more developed European states.

Denmark: Balance of Payments*

Billion US $

	1970	1971	1972	1973	1974	1975	1976
Trade balance	−0.8	−0.7	−0.4	−1.1	−1.8	−1.3	−2.8
Exports	3.3	3.6	4.4	5.9	7.7	8.7	9.0
Imports	−4.1	−4.3	−4.8	−7.0	−9.5	−9.9	−11.9
Services and private transactions	0.3	0.3	0.4	0.4	0.6	0.7	0.7
Current account balance	**−0.5**	**−0.4**	**Negl.**	**−0.7**	**−1.2**	**−0.6**	**−2.2**
Medium- and long-term capital	0.1	0.3	0.2	0.4	0.4	0.3	2.2
Official flows	Negl.	0.2	0.1	0.4	0.4	0.2	1.9
Direct investment	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Private loans	Negl.	Negl.	Negl.	Negl.	Negl.	Negl.	0.2
Short-term capital	0.4	0.2	0.1	0.6	0.1	0.2	0.1
Errors and omissions	0.1	0.1	−0.2	0.1	0.2	0.1	−0.1
Allocations of SDRs	Negl.	Negl.	Negl.	0	0	0	0
Change in reserves and related items	**Negl.**	**0.2**	**0.1**	**0.4**	**−0.4**	**Negl.**	**−0.1**

*Because of rounding, components may not add to the totals shown.

FINLAND

Finland is attempting to reduce its current account deficit ($1.1 billion in 1976) to what it considers a more manageable level. It has an import deposit scheme and is restraining economic growth through tight monetary controls. With little new investment and only an indifferent export outlook (depending on paper and wood prices), Helsinki seems likely to have to settle for low growth and continuing current account deficits. Because its current debt burden is moderate it should easily be able to finance deficits of at least $500 million.

Finland: Balance of Payments*

Billion US $

	1970	1971	1972	1973	1974	1975	1976
Trade balance	−0.2	−0.3	−0.1	−0.3	−0.9	−1.6	−0.6
Exports	2.3	2.4	2.9	3.8	5.5	5.5	6.3
Imports	−2.5	−2.6	−3.0	−4.1	−6.4	−7.1	−7.0
Services and private transactions	−0.1	−0.1	−0.1	−0.1	−0.3	−0.5	−0.5
Current account balance	**−0.2**	**−0.3**	**−0.1**	**−0.4**	**−1.2**	**−2.2**	**−1.1**
Medium- and long-term capital	0.1	0.4	0.3	0.1	0.2	1.3	1.0
Official flows	Negl.	Negl.	Negl.	−0.1	−0.1	0.1	0.2
Direct investment	Negl.	Negl.	Negl.	Negl.	Negl.	Negl.	Negl.
Private loans	0.1	0.4	0.4	0.2	0.3	1.1	0.8
Short-term capital	0.2	0.1	−0.2	−0.1	0.7	0.8	−0.3
Errors and omissions	Negl.	Negl.	Negl.	0.1	0.2	−0.1	0.3
Allocations of SDRs	Negl.	Negl.	Negl.	0	0	0	0
Change in reserves and related items	**0.1**	**0.2**	**Negl.**	**−0.2**	**Negl.**	**−0.2**	**−0.1**

*Because of rounding, components may not add to the totals shown.

FRANCE

France will probably have to raise large sums abroad for many years to cover a current account deficit and exports of capital—mainly export finance and economic assistance. This should be possible because France's foreign debt burden remains small. Despite the recent increase in foreign borrowing, France still has a surplus in the balance-of-payments category covering interest, dividends, and other income from capital. To accommodate the current account imbalance, Paris is likely to continue to encourage quasi-governmental and private firms to tap foreign capital markets.

Nonetheless, this borrowing is repugnant to Paris because it implies a dependence on others that has long been anathema to French policy-makers. Paris also fears that continuing foreign deficits would lead to a decline in the value of the franc, meaning a loss of prestige and a boost to domestic inflation. But considering the huge bill for imported energy, Paris probably cannot restore payments balance without cutting economic growth to unacceptably low levels.

The present regime's hopes of reducing the current account deficit to near zero by 1980 thus are not likely to be realized. This year the deficit is expected to decline some $2 billion because of the Barre plan's austerity measures, the increased competitiveness of French goods resulting from franc depreciation last year, and the elimination of the unusually large food and oil imports stemming from last summer's drought. The deficit may not fall further in 1978-80 and could even grow. Political controversy originating in the upcoming elections and high unemployment are likely to lead to economic stimulation by year's end. Any government assuming power in 1978 is expected to give economic growth a higher priority than payments stabilization.

France: Balance of Payments*

Billion US $

	1970	1971	1972	1973	1974	1975	1976
Trade balance	0.7	1.1	1.3	0.8	−3.9	1.5	−4.6
Exports	18.3	20.7	26.1	35.9	45.8	50.9	55.0
Imports	−17.5	−19.6	−24.8	−35.1	−49.7	−49.4	−59.6
Services and private transactions	−0.2	−0.1	−0.3	−0.8	−1.0	−0.4	−0.2
Current account balance	**0.5**	**1.0**	**1.0**	**−0.1**	**−4.8**	**1.1**	**−4.8**
Medium- and long-term capital	0.1	−0.5	−1.4	−2.9	−1.3	−2.1	−1.8
Official flows	−0.5	−0.6	−0.8	−0.9	−1.6	−1.3	−1.3
Direct investment	0.2	0.1	0.1	0.3	0.8	0.3	−0.6
Private loans	0.4	0.1	−0.7	−2.2	−0.5	−1.2	0.1
Short-term capital	0.8	2.6	1.9	1.1	4.6	2.6	3.0
Errors and omissions	0.4	0.2	0.1	−0.1	1.2	1.9	0.7
Allocations of SDRs	0.2	0.2	0.2	0	0	0	0
Change in reserves and related items	**2.0**	**3.5**	**1.8**	**−1.9**	**−0.4**	**3.5**	**−2.9**

*Because of rounding, components may not add to the totals shown.

The factor that could most easily disrupt the French scenario would be the imposition of radical economic policies by the Socialist-Communist coalition if it wins the 1978 legislative elections. Radical economic policies are not probable because the Socialists, who play the largest role in the coalition, are committed to a relatively moderate economic policy. But the Communists—and the left-wing faction of the Socialists—are far more doctrinaire. These groups would press for more radical measures—measures that could disrupt the economy and sharply increase the payments deficit while simultaneously frightening away private foreign lenders.

ISRAEL

Most of the increase in the Israeli current account deficit (from $400 million a year in the early 1970s to $2.3 billion in 1976) was covered by US military and economic aid. The 1976 deficit would have been higher except for measures that Tel Aviv took to hold down imports. These measures were necessary to offset increased foreign exchange payments for oil and an export slowdown resulting from the world recession, as well as rapidly expanding military outlays.

In the absence of any new conflict, Israel may be able to ease up on its austerity program and increase its reliance on foreign commercial funds. Israel can easily manage a $2.5-billion deficit with $1 billion to $1.5 billion in support from foreign Jews, commercial borrowing, and concessionary US aid.

Israel: Balance of Payments*

Billion US $

	1970	1971	1972	1973	1974	1975	1976
Trade balance	−1.1	−1.2	−1.1	−2.5	−3.0	−3.5	−2.8
Exports	0.8	1.0	1.2	1.6	2.0	2.2	2.7
Imports	−1.9	−2.2	−2.3	−4.0	−5.0	−5.7	−5.5
Services and private transactions	0.5	0.8	1.0	1.2	0.7	0.5	0.5
Current account balance	**−0.6**	**−0.5**	**−0.1**	**−1.3**	**−2.3**	**−2.9**	**−2.3**
Medium- and long-term capital	0.6	0.7	0.7	1.8	1.4	2.2	2.0
Official flows	0.5	0.5	0.5	1.4	1.2	2.0	2.1
Direct investment	Negl.	0.1	0.1	0.1	0.1	0.1	Negl.
Private loans	Negl.	0.2	0.2	0.2	0.1	0.1	−0.1
Short-term capital	Negl.	Negl.	−0.2	Negl.	0.5	0.5	Negl.
Errors and omissions	Negl.	Negl.	0.1	Negl.	−0.4	0.1	0.3
Allocations of SDRs	Negl.	Negl.	Negl.	0	0	0	0
Change in reserves and related items	**Negl.**	**0.3**	**0.5**	**0.5**	**−0.8**	**−0.1**	**Negl.**

*Because of rounding, components may not add to the totals shown.

ITALY

Rome wants a current account surplus so that it can begin paying back the considerable sums—about $17 billion—borrowed to cover its current account deficits and short term capital outflows. It realizes that such an effort will require policies that will lead to slower economic growth.

Although the government has implemented austerity measures in recent months, its ability to enact the reforms needed for long-term stability is questionable. Once the payments position improves, political and social groups will intensify pressures to stimulate the economy, which would cause the balance-of-payments weaknesses to surface anew. Seesaw economic policies have been typical in recent years as Italy lacks the political consensus to maintain an adjustment process for very long. Since foreign commercial banks are reluctant to lend to Italy, additional loans—especially rollovers of outstanding credits—will have to come from official sources.

Over and above its political problems, Italy has lost the relatively low-wage competitive advantage that helped spur rapid development in the 1950s and 1960s. Several years of successful political effort and a reduction in real wage gains will be required to bring about necessary changes in Italy's economic structure.

Italy: Balance of Payments*

Billion US $

	1970	1971	1972	1973	1974	1975	1976
Trade balance	−0.2	0.6	0.8	−4.0	−8.5	−1.1	−4.0
Exports	13.1	14.9	18.4	22.1	29.8	34.4	35.7
Imports	−13.4	−14.3	−17.6	−26.0	−38.3	−35.5	−39.7
Services and private transactions	1.7	2.3	2.4	2.8	1.9	2.1	2.3
Current account balance	**1.4**	**2.9**	**3.2**	**−1.2**	**−6.6**	**0.9**	**−1.7**
Medium- and long-term capital	0.7	Negl.	−0.7	2.7	2.0	−0.7	−1.4
Official flows	0.1	−0.8	−1.1	−1.4	−1.1	−1.1	−1.0
Direct investment	0.5	0.1	0.4	0.4	0.4	0.3	Negl.
Private loans	0.1	0.6	0.1	3.7	2.8	Negl.	−0.4
Short-term capital	−0.6	−0.3	−1.2	−1.0	−0.1	−2.1	3.1
Errors and omissions	−1.1	−1.1	−1.3	−0.7	Negl.	−0.8	Negl.
Allocations of SDRs	0.1	0.1	0.1	0	0	0	0
Change in reserves and related items	**0.5**	**1.1**	**−0.7**	**−0.2**	**−4.6**	**−2.7**	**Negl.**

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NEW ZEALAND

The outlook for New Zealand is for continued slow economic growth combined with current account deficits of $500 million or more. Economic growth depends heavily on exports, and the prospects for a major increase in foreign sales are not bright. Only soaring export prices similar to those experienced in 1973 would relieve the gloomy prospects. Even then, the relief probably would be temporary. Wellington should be able to borrow the necessary funds to cover the expected current account deficits during the next few years since it has a politically stable government and a moderate debt burden. In the longer run, Wellington needs to attract sizable foreign investment to diversify the country's export base.

New Zealand: Balance of Payments*

Billion US $

	1970	1971	1972	1973	1974	1975	1976
Trade balance	0.2	0.3	0.5	0.6	−0.5	−0.8	Negl.
Exports	1.3	1.4	1.7	2.5	2.4	2.1	2.8
Imports	−1.0	−1.1	−1.2	−1.9	−2.9	−2.9	−2.8
Services and private transactions	−0.3	−0.2	−0.3	−0.4	−0.6	−0.6	−0.8
Current account balance	**Negl.**	**Negl.**	**0.2**	**0.2**	**−1.1**	**−1.4**	**−0.8**
Medium- and long-term capital	Negl.	0.1	0.1	−0.1	0.5	1.0	0.7
Official flows	Negl.	Negl.	Negl.	−0.1	0.2	0.5	0.3
Direct investment	Negl.	0.1	0.1	Negl.	0.2	0.2	0.2
Private loans	Negl.	Negl.	Negl.	Negl.	0.1	0.2	0.3
Short-term capital	Negl.	Negl.	Negl.	Negl.	Negl.	Negl.	−0.1
Errors and omissions	Negl.	Negl.	Negl.	−0.1	0.1	Negl.	0.1
Allocations of SDRs	Negl.	Negl.	Negl.	0	0	0	0
Change in reserves and related items	**Negl.**	**0.2**	**0.3**	**0.1**	**−0.5**	**−0.3**	**Negl.**

*Because of rounding, components may not add to the totals shown.

PORTUGAL

Portugal will run annual current account deficits of about $1 billion for several more years as it tries to overcome the dislocations caused by the 1974 political upheavals. Portuguese exports are likely to revive only slowly. Official lending will be needed to cover most of the deficit since the confidence of the private financial community in the country and its economy will recover only gradually. Although Lisbon's debt burden is still moderate, it is rising rapidly and probably will continue to do so.

Portugal: Balance of Payments*

Billion US $

	1970	1971	1972	1973	1974	1975	1976
Trade balance	N.A.	N.A.	−0.7	−0.9	−2.0	−1.6	−2.1
Exports	N.A.	N.A.	1.3	1.8	2.3	1.9	1.8
Imports	N.A.	N.A.	−2.0	−2.7	−4.3	−3.5	−3.9
Services and private transactions	N.A.	N.A.	1.1	1.3	1.2	0.9	0.8
Current account balance	**N.A.**	**N.A.**	**0.4**	**0.3**	**−0.8**	**−0.7**	**−1.3**
Medium- and long-term capital	N.A.	N.A.	−0.1	−0.1	−0.2	−0.2	0.1
Official flows	N.A.	N.A.	−0.2	−0.1	−0.1	−0.1	Negl.
Direct investment	N.A.	N.A.	0.1.	0.1	0.1	0.1	0.1
Private loans	N.A.	N.A.	Negl.	−0.1	0.3	−0.2	Negl.
Short-term capital	N.A.	N.A.	Negl.	−0.1	Negl.	−0.2	0.8
Errors and omissions	N.A.	N.A.	0.1	0.3	Negl.	0.1	0.1
Allocations of SDRs	N.A.	N.A.	Negl.	0	0	0	0
Change in reserves and related items	**N.A.**	**N.A.**	**0.3**	**0.3**	**−0.6**	**−1.0**	**−0.3**

*Because of rounding, components may not add to the totals shown.

SOUTH AFRICA

South Africa's 1976 current account deficit just about matched those of the early 1970s in real terms. Pretoria's sense of a manageable deficit reflects its conservative financial bent and its reaction to foreign criticism of South Africa's racial policies. When Pretoria increased purchases of foreign military equipment following the Angolan episode, it checked civilian import demand through more restrictive demand management policies. The deficit was also held down because Pretoria wanted to limit foreign borrowing at a time that pressure was mounting against its racial policies.

Political factors will continue to dominate throughout the decade. Exports of raw materials and semi-finished goods especially should expand fairly rapidly as several large scale projects are slated to come on stream. Under pre-1976 political conditions, Pretoria also would be attracting growing amounts of foreign capital and therefore would be able to scale down its current austerity programs. If outside political pressures wane as they did after the 1960 Sharpville incident, South Africa can afford high economic growth and larger current account deficits. More foreign pressure and renewed domestic disturbance, however, would result in a much less favorable outcome. Further austerity moves, which could contribute to even greater dissatisfaction among the nonwhite population, are likely.

South Africa: Balance of Payments*

Billion US $

	1970	1971	1972	1973	1974	1975	1976
Trade balance	−0.5	−0.6	0.7	1.1	0.1	−0.8	−0.3
Exports	3.2	3.4	4.4	6.2	8.5	8.3	8.3
Imports	−3.6	−4.0	−3.7	−5.1	−8.4	−9.2	−8.5
Services and private transactions	−0.8	−0.8	−0.7	−1.1	−1.5	−1.7	−1.6
Current account balance	**−1.2**	**−1.4**	**−0.1**	**Negl.**	**−1.4**	**−2.5**	**−1.9**
Medium- and long-term capital	0.8	0.9	0.7	0.2	1.0	1.8	1.4
Official flows	0.2	0.2	0.2	−0.2	0.1	0.6	0.3
Direct investment	0.4	0.3	Negl.	Negl.	0.6	Negl.	Negl.
Private loans	0.2	0.3	0.5	0.4	0.3	1.2	1.1
Short-term capital	Negl.	0.1	Negl.	−0.2	0.8	0.1	−0.1
Errors and omissions	0.1	0.1	−0.1	−0.1	−0.6	0.1	−0.5
Allocations of SDRs	Negl.	Negl.	Negl.	0	0	0	0
Change in reserves and related items	**−0.4**	**−0.4**	**0.6**	**Negl.**	**−0.2**	**−0.6**	**−1.1**

*Because of rounding, components may not add to the totals shown.

SPAIN

Spain is likely to run large current account deficits throughout the rest of this decade. While political pressures are likely to favor faster growth rather than payments stabilization, a balance will have to be struck resulting in a growth rate lower than the 6.5 percent achieved during 1960-73. Success in sustaining these large deficits will depend a great deal upon political factors—a smooth transition to democracy. Spain will be able to cope with an increasing debt in the medium term only if export growth can be maintained—a result that will depend heavily upon the success of Madrid's policies to leash Spain's rampant inflation. The present debt burden is moderate compared with those borne by advanced LDCs with good growth prospects—Mexico, Brazil, and South Korea, for example.

Madrid has taken some encouraging steps to expand export growth and increase the industrial base. Investment regulations are being relaxed to enhance foreign participation, and multinationals are being encouraged to use Spain as a base for exports. To help attract capital, interest rates are being raised from artificially low rates, and a decision to allow foreign banking operations in Spain is expected within the next year. Spain has had little difficulty in raising Eurodollar loans, but faces tougher loan terms.

Spain: Balance of Payments*

Billion US $

	1970	1971	1972	1973	1974	1975	1976
Trade balance	−1.9	−1.6	−2.3	−3.5	−7.0	−7.4	−7.5
Exports	2.5	3.0	3.9	5.3	7.2	7.8	8.9
Imports	−4.4	−4.6	−6.2	−8.8	−14.3	−15.2	−16.4
Services and private transactions	2.0	2.5	2.9	4.1	3.8	3.9	3.0
Current account balance	**0.1**	**0.9**	**0.6**	0.6	**−3.2**	**−3.5**	**−4.4**
Medium- and long-term capital	0.7	0.5	0.9	0.8	2.6	2.5	2.0
Official flows	Negl.	−0.1	Negl.	0.1	Negl.	−0.1	0.6
Direct investment	0.2	0.2	0.2	0.3	0.3	0.2	0.2
Private loans	0.5	0.4	0.7	0.5	2.3	2.3	1.3
Short-term capital	Negl.	0.2	Negl.	−0.2	−0.2	−0.1	0.7
Errors and omissions	0.1	−0.1	Negl.	Negl.	0.1	0.4	0.7
Allocations of SDRs	Negl.	Negl.	Negl.	0	0	0	0
Change in reserves and related items	**0.9**	**1.5**	1.6	1.2	−0.7	−0.7	**−1.0**

*Because of rounding, components may not add to the totals shown.

SWEDEN

Sweden, which is set on reducing its current account deficit, has a difficult road ahead. It has just embarked on policies to overcome the immediate impact of the OPEC price rise and has done little to deal with the more basic problem of its faltering competitive position in world markets. Sweden's exports are penalized by high wages and a heavy concentration in nongrowth industries–steel and shipbuilding. Political pressures for maintaining the status quo are likely to keep the adjustment process from moving ahead rapidly. Thus, low growth rates and large current account deficits are expected. The country should, however, have little trouble financing deficits that could run more than $2 billion annually during the next few years. Its present debt burden is small, and lenders have confidence in the country's political stability.

Sweden: Balance of Payments*

Billion US $

	1970	1971	1972	1973	1974	1975	1976
Trade balance	0.3	0.9	1.2	2.3	0.6	0.7	−0.9
Exports	6.7	7.4	8.7	12.1	15.8	17.3	18.3
Imports	−6.4	−6.5	−7.5	−9.8	−15.2	−16.6	−19.2
Services and private transactions	−0.5	−0.6	−0.8	−0.8	−1.2	−1.8	−0.9
Current account balance	**−0.2**	**0.3**	**0.5**	**1.4**	**−0.6**	**−1.1**	**−1.9**
Medium- and long-term capital	0.1	−0.1	Negl.	Negl.	−0.1	0.8	−0.1
Official flows	−0.1	−0.2	−0.2	−0.3	−0.5	−0.4	0.5
Direct investment	−0.1	−0.1	−0.2	−0.2	0.3	0.4	−0.5
Private loans	0.3	0.2	0.4	0.5	0.8	1.6	0.8
Short-term capital	Negl.	0.1	−0.1	−0.5	−0.3	0.4	0.3
Errors and omissions	0.2	−0.1	Negl.	Negl.	0.1	1.1	1.2
Allocations of SDRs	Negl.	Negl.	Negl.	0	0	0	0
Change in reserves and related items	**Negl.**	**0.3**	**0.5**	**0.8**	**−0.8**	**1.3**	**−0.5**

*Because of rounding, components may not add to the totals shown.

TURKEY

The Turkish government is just beginning to recognize that its policy of maintaining high growth is severely exacerbating its foreign payments problems. Recently, New York bankers turned down a Turkish request for new loans. So far, Ankara has not yet taken any action to slow economic growth, but it may soon have little choice but to do so.

Although Turkey's debt burden is relatively moderate, its export potential is not especially bright. Ankara will have to depend for the most part on agricultural exports and thus the vagaries of the weather. Earnings from guest workers in Western Europe are expected to level off or even decline, and Turkish workers have been unsuccessful in tapping new labor markets in oil rich countries. In addition, Turkey has not obtained much direct financial support from Arab states, despite their common religion. Since automatic IMF borrowing has been fully tapped, further loans probably will include provisions requiring Ankara to slow growth in order to reduce the size of its current account deficits.

Turkey: Balance of Payments*

Billion US $

	1970	1971	1972	1973	1974	1975	1976
Trade balance	−0.3	−0.4	−0.5	−0.6	−1.8	−2.8	−2.6
Exports	0.6	0.7	0.9	1.3	1.5	1.4	2.0
Imports	−0.8	−1.1	−1.4	−1.9	−3.4	−4.2	−4.6
Services and private transactions	0.2	0.3	0.6	1.2	1.2	1.0	0.5
Current account balance	**−0.1**	**Negl.**	**0.1**	**0.6**	**−0.6**	**−1.9**	**−2.2**
Medium- and long-term capital	0.3	0.3	0.7	0.4	0.4	1.3	
Official flows	0.2	0.3	0.2	0.2	0.1	0.1	
Direct investment	0.1	Negl.	Negl.	0.1	0.1	0.2	
Private loans	0.1	Negl.	0.5	0.1	0.2	1.1	
Short-term capital	Negl.	0.1	Negl.	−0.6	−0.2	−0.3	−2.1
Errors and omissions	−0.1	Negl.	−0.2	0.3	Negl.	−0.1	
Allocations of SDRs	Negl.	Negl.	Negl.	0	0	0	0
Change in reserves and related items	**0.2**	**0.4**	**0.7**	**0.7**	**−0.4**	**−0.9**	**−0.1**

*Because of rounding, components may not add to the totals shown.

BRAZIL

Brazil ranks near the bottom in nearly every indicator of trade and payments problems. For example, it has the world's largest current account deficit and one of the heaviest debt burdens. It shows up well only in terms of export growth and reserve levels. Nonetheless, because the government has taken firm steps to deal with the balance-of-payments problem and because confidence in the country's future remains strong, its problems are not overpowering. Lenders retain a high confidence in Brazil because it has a massive domestic market, a large and dynamic entrepreneurial group, and political stability. In addition, exports are expected to continue to climb faster than world trade, although a temporary setback is likely if and when coffee prices turn down.

In view of its expected export growth and the high level of foreign confidence, Brazil could easily afford annual current account deficits of $3 billion-$4 billion in 1977-80. This level would allow the ratio of the current account deficit to exports of goods and services to fall from 50 percent to a more normal 20 percent. Although the debt service ratio would remain high, it would remain manageable as long as exports continue to grow rapidly. Under these conditions the government could relax the austerity measures, thus encouraging a continuing high rate of economic growth.

Brazil: Balance of Payments*

Billion US $

	1970	1971	1972	1973	1974	1975	1976
Trade balance	0.2	−0.4	−0.3	−0.1	−4.7	−3.5	−2.1
Exports	2.7	2.9	3.9	6.1	7.8	8.5	10.1
Imports	−2.5	−3.3	−4.2	−6.2	−12.6	−12.0	−12.3
Services and private transactions	−0.8	−1.0	−1.2	−1.7	−2.4	−3.5	−3.9
Current account balance	**−0.6**	**−1.3**	**−1.5**	**−1.8**	**−7.2**	**−7.1**	**−6.1**
Medium- and long-term capital	0.9	1.3	3.3	3.7	5.8	5.3	6.0
Official flows	0.2	0.4	0.5	1.0	1.6	2.0	3.5
Direct investment	0.1	0.2	0.4	0.9	0.9	0.9	1.0
Private loans	0.6	0.7	2.4	1.8	3.4	2.4	1.5
Short-term capital	0.1	0.5	0.1	Negl.	0.4	0.8	1.9
Errors and omissions	Negl.	Negl.	0.4	0.4	−0.1	−0.1	0.4
Allocations of SDRs	0.1	Negl.	0.1	0	0	0	0
Change in reserves and related items	**0.6**	**0.5**	**2.4**	**2.3**	**−1.0**	**−1.1**	**2.2**

*Because of rounding, components may not add to the totals shown.

CHILE

Chile has improved its foreign payments position greatly by undertaking one of the most stringent austerity programs by a non-Communist government in the past quarter of a century. Beginning in late 1973, the new junta inherited an economic mess, the result of political strife and economic mismanagement in several previous administrations. The current account deficit reached nearly $600 million in 1975 as copper prices plummeted. International reserves fell to the equivalent of two weeks' imports, and the country was unable to meet its debt service obligations. By the end of 1976, the deficit had practically been eliminated, and reserves exceeded more than two months' imports of goods and services. For the first time since 1971, the debt was being serviced on time while efforts to stimulate imports and economic activity were being introduced.

Although the volume of copper exports is expected to stagnate, slowly increasing copper prices together with expansion of nontraditional exports should suffice to hold the deficit to an annual level of $500 million during the remainder of the 1970s. The Chileans have been highly successful in marketing their nontraditional exports in recent years. The current account deficit plus the still steep foreign debt burden should be easily covered by new foreign loans and direct investment. The confidence of the international business and banking community in the Chilean economy has recovered markedly in the past year. A return to the political turmoil that characterized the early 1970s could, of course, undercut Chile's favorable prospects.

Chile: Balance of Payments*

Billion US $

	1970	1971	1972	1973	1974	1975	1976
Trade balance	0.3	0.1	−0.2	−0.1	−0.2	0.1	0.7
Exports	1.1	1.0	0.9	1.3	2.0	1.6	2.1
Imports	−0.8	−0.9	−1.1	−1.4	−2.2	−1.5	−1.4
Services and private transactions	−0.3	−0.3	−0.2	−0.4	−0.2	−0.7	−0.6
Current account balance	**Negl.**	**−0.2**	**−0.5**	**−0.5**	**−0.4**	**−0.6**	**Negl.**
Medium- and long-term capital	0.2	Negl.	0.4	0.4	0.1	0.1	0.3
Official flows	0.1	0.1	0.4	0.3	0.1	0.1	−0.1
Direct investment	Negl.	Negl.	Negl.	Negl.	Negl.	Negl.	Negl.
Private loans	Negl.	Negl.	−0.1	0.1	Negl.	Negl.	0.5
Short-term capital	Negl.	Negl.	Negl.	0.2	0.1	0.2	0.1
Errors and omissions	−0.1	−0.1	−0.1	−0.1	Negl.	Negl.	Negl.
Allocations of SDRs	Negl.	Negl.	Negl.	0	0	0	0
Change in reserves and related items	**0.1**	**−0.2**	**−0.1**	**Negl.**	**−0.2**	**−0.3**	**0.5**

*Because of rounding, components may not add to the totals shown.

EGYPT

The huge Egyptian current account deficit depends mainly on Arab largess. The enormous rise in the deficit since the early 1970s resulted from imports financed mostly by Saudi funds. Between now and 1980, Egypt has the capability to maintain GNP growth at 5 percent per year and to reduce the amount of foreign financial support. Higher earnings from oil, tourism, and the Suez Canal should take up some of the slack. How well Cairo succeeds will depend chiefly on its ability to reform economic management, an effort that will entail considerable political risks.

Egypt: Balance of Payments*

Billion US $

	1970	1971	1972	1973	1974	1975	1976
Trade balance	−1.3	−0.3	−0.4	−0.4	−1.2	−2.4	N.A.
Exports	0.8	0.9	0.8	1.0	1.7	1.6	N.A.
Imports	−1.1	−1.1	−1.2	−1.4	−2.9	−3.9	N.A.
Services and private transactions	−0.2	−0.2	−0.1	−0.1	−0.1	Negl.	N.A.
Current account balance	**−0.5**	**−0.5**	−0.5	**−0.6**	**−1.3**	−2.4	−2.4
Medium- and long-term capital	0.3	0.3	0.4	0.6	0.8	1.6	
Official flows	0.3	0.3	0.4	0.6	0.9	1.2	
Direct investment	Negl.	Negl.	Negl.	Negl.	Negl.	Negl.	2.4
Private loans	Negl.	Negl.	Negl.	Negl.	Negl.	0.4	
Short-term capital	0.1	0.1	0.1	0.1	0.3	−0.5	
Errors and omissions	Negl.	Negl.	Negl.	Negl.	Negl.	Negl.	
Allocations of SDRs	Negl.	Negl.	Negl.	0	0	0	N.A.
Change in reserves and related items	Negl.	**−0.1**	Negl.	0.1	**−0.1**	−1.3	Negl.

*Because of rounding, components may not add to the totals shown.

JAMAICA

The Jamaican economic outlook is bleak despite some favorable foreign statistics. The 1976 current account deficit is smaller in real terms than those run in the early 1970s, and the debt and debt service ratio are still low despite stepped-up borrowing in recent years. Although private direct investment covered much of the current account deficit until 1974, the poor investment climate since then has required almost total reliance on loan capital. In addition, substantial capital flight has led to considerable short-term borrowing and has reduced reserves to exceptionally low levels.

An inability to attract new private capital and a poor potential for both nonbauxite exports and tourism point to further austerity, to even higher unemployment, and to efforts by Kingston to raise official credits. It will take an unexpected reversal of Manley's present nationalistic policies toward foreign investments to alleviate Jamaica's unfavorable trade picture.

Jamaica: Balance of Payments*

Billion US $

	1970	1971	1972	1973	1974	1975	1976
Trade balance	−0.1	−0.1	−0.2	−0.2	−0.1	−0.2	−0.1
Exports	0.3	0.3	0.4	0.4	0.8	0.8	0.7
Imports	−0.4	−0.5	−0.5	−0.6	−0.8	−1.0	−0.8
Services and private transactions	Negl.	Negl.	Negl.	−0.1	Negl.	−0.1	−0.2
Current account balance	**−0.1**	**−0.2**	**−0.2**	**−0.2**	**−0.1**	**−0.3**	**−0.3**
Medium- and long-term capital	0.2	0.2	0.1	0.2	0.2	0.2	Negl.
Official flows	Negl.	Negl.	Negl.	Negl.	0.1	0.1	0.1
Direct investment	0.2	0.2	0.1	0.1	Negl.	Negl.	Negl.
Private loans	Negl.	Negl.	Negl.	0.1	0.1	0.1	Negl.
Short-term capital	Negl.	Negl.	Negl.	Negl.	Negl.	0.1	Negl.
Errors and omissions	Negl.	Negl.	Negl.	Negl.	Negl.	−0.1	Negl.
Allocations of SDRs	Negl.	Negl.	Negl.	0	0	0	0
Change in reserves and related items	**Negl.**	**Negl.**	**Negl.**	**Negl.**	**0.1**	**−0.1**	**−0.3**

*Because of rounding, components may not add to the totals shown.

MOROCCO

Despite an extremely large current account deficit in 1976, Rabat still does not face any immediate foreign financial problems. Nearly one-half the deficit represents imports (mainly military) financed by Saudi Arabia. This highly concessionary aid combined with little previous debt has kept Morocco's debt service ratio less than 10 percent.

Rabat is intent on continuing its large development effort although its ability to pay for the needed imports is not assured. The outlook is poor for its major earners of foreign exchange—phosphate and remittances from Moroccan workers in Europe—and the country has few reserves to draw upon. Riyadh will have to supply much more money for nonmilitary purchases if Rabat is to avoid having to cut economic development in order to achieve a more manageable current account deficit.

Morocco: Balance of Payments*

Billion US $

	1970	1971	1972	1973	1974	1975	1976
Trade balance	−0.1	−0.1	−0.1	−0.1	Negl.	−0.7	−1.2
Exports	0.5	0.5	0.6	0.9	1.7	1.5	1.3
Imports	−0.6	−0.6	−0.7	−1.0	−1.7	−2.3	−2.5
Services and private transactions	Negl.	0.1	0.1	0.2	0.2	0.2	−0.3
Current account balance	**−0.1**	−0.1	Negl.	**0.1**	**0.2**	**−0.5**	−1.5
Medium- and long-term capital	0.1	0.1	Negl.	Negl.	Negl.	0.4	0.8
Official flows	0.1	0.1	Negl.	Negl.	Negl.	0.3	0.5
Direct investment	Negl.	Negl.	Negl.	Negl.	Negl.	Negl.	Negl.
Private loans	Negl.	Negl.	Negl.	Negl.	Negl.	0.1	−0.3
Short-term capital	Negl.	Negl.	Negl.	−0.1	−0.1	0.1	0.8
Errors and omissions	Negl.	Negl.	Negl.	Negl.	Negl.	Negl.	Negl.
Allocations of SDRs	Negl.	Negl.	Negl.	0	0	0	0
Change in reserves and related items	**Negl.**	**0.1**	**0.1**	**Negl.**	**0.1**	**Negl.**	**0.1**

*Because of rounding, components may not add to the totals shown.

PERU

The large jump in Peru's current account deficit and the deterioration in its financial indicators in recent years have been caused primarily by the enormous increase in imports needed to support several large-scale projects financed by foreign capital. Now that these projects are coming on stream, the financial statistics are expected to improve substantially. The current account deficit as a percentage of exports, for example, should fall from the 1976 rate of 60 percent to a more moderate 20 percent in a year or so.

Commercial banks nevertheless hesitate to lend the money Lima needs to cover even a small current account deficit and rising debt amortization payments. They distrust the present regime's will to cut back a large budget deficit (in part caused by military outlays) and to take steps to reduce the present 33-percent annual rate of inflation. Before lending additional funds, the banks demand that Lima first accept the severe austerity measures required for an IMF standby loan. Whatever the outcome, Peru is unlikely to be able to regain the 6-percent annual GNP growth characteristic of the early 1970s until at least 1979. It will curb economic growth if it accepts the IMF conditions, while if it defaults on its debt, foreign loans will dry up and imports will have to be cut anyhow.

Peru: Balance of Payments*

Billion US $

	1970	1971	1972	1973	1974	1975	1976
Trade balance	0.3	0.2	0.1	Negl.	−0.4	−1.1	−0.7
Exports	1.0	0.9	0.9	1.1	1.5	1.3	1.4
Imports	−0.7	−0.7	−0.8	−1.1	−1.9	−2.4	−2.1
Services and private transactions	−0.2	−0.2	−0.2	−0.3	−0.3	−0.5	−0.5
Current account balance	**0.1**	**−0.1**	**−0.1**	**−0.3**	**−0.8**	**−1.6**	**−1.1**
Medium- and long-term capital	Negl.	Negl.	0.1	0.4	0.7	1.2	0.9
Official flows	0.1	Negl.	0.1	0.3	0.5	0.5	0.5
Direct investment	−0.1	−0.1	Negl.	0.1	0.1	0.3	0.2
Private loans	Negl.	0.1	Negl.	0.1	0.2	0.4	0.2
Short-term capital	0.1	Negl.	Negl.	Negl.	0.5	−0.1	0.4
Errors and omissions	Negl.	Negl.	−0.1	Negl.	−0.1	Negl.	−0.3
Allocations of SDRs	Negl.	Negl.	Negl.	0	0	0	0
Change in reserves and related items	**0.3**	**Negl.**	**Negl.**	**0.1**	**0.4**	**−0.5**	**−0.3**

*Because of rounding, components may not add to the totals shown.

PHILIPPINES

Manila believes that the Philippines can continue to run a $1-billion-a-year current account deficit for several years. About one-third of the funds are expected to come from official sources while the remainder would be from private sources—direct investment, medium- and long-term loans, and the normal increase in the level of trade credits. This forecast hinges largely on exports rising slightly faster than the 13 percent a year import growth (7 percent in volume and 6 percent in price) needed to sustain the current economic expansion of 6 to 7 percent a year.

But export growth this high would require an acceleration of nontraditional exports (especially manufactures)—an outcome that is quite uncertain. If exports fail to increase at the projected rate, lender confidence will diminish, and the country will be forced to impose austerity measures to right an increasing current account deficit.

Philippines: Balance of Payments*

Billion US $

	1970	1971	1972	1973	1974	1975	1976
Trade balance	Negl.	Negl.	−0.1	0.3	−0.4	−1.2	−1.1
Exports	1.1	1.1	1.1	1.9	2.7	2.3	2.5
Imports	−1.1	−1.2	−1.3	−1.6	−3.1	−3.5	−3.6
Services and private transactions	Negl.	Negl.	0.1	0.1	0.2	0.2	Negl.
Current account balance	**−0.1**	**Negl.**	**Negl.**	**0.4**	**−0.3**	**−1.0**	**−1.1**
Medium- and long-term capital	0.2	Negl.	0.1	0.2	0.3	0.6	1.2
Official flows	0.1	0.1	0.2	0.1	0.2	0.3	0.7
Direct investment	Negl.	Negl.	Negl.	0.1	Negl.	0.1	0.1
Private loans	0.1	−0.1	Negl.	Negl.	0.1	0.2	0.3
Short-term capital	0.1	0.3	0.2	0.1	0.6	0.6	0.5
Errors and omissions	−0.1	−0.1	−0.1	Negl.	−0.1	−0.2	−0.1
Allocations of SDRs	Negl.	Negl.	Negl.	0	0	0	0
Change in reserves and related items	**0.1**	**0.1**	**0.2**	**0.7**	**0.6**	**Negl.**	**0.4**

*Because of rounding, components may not add to the totals shown.

ZAIRE

Zaire's foreign financial position was gloomy even before the invasion of Shaba. The economy is ill-managed, and exports are not expected to rise much during the next few years. In addition, Kinshasa has one of the world's largest debts in relation to the size of its economy, a high debt service ratio, limited foreign exchange reserves, and a poor credit rating. The likely outlook is for a continuation of austerity for some time. During the next few years Zaire will be able to bring about modest improvements in economic conditions only if real copper prices rise significantly.

Zaire: Balance of Payments*

Billion US $

	1970	1971	1972	1973	1974	1975	1976
Trade balance	0.2	Negl.	−0.1	0.1	0.1	−0.1	0.2
Exports	0.8	0.7	0.7	1.0	1.5	0.9	1.0
Imports	−0.6	−0.7	−0.8	−1.0	−1.4	−1.0	−0.9
Services and private transactions	−0.3	−0.3	−0.4	−0.4	−0.7	−0.6	−0.3
Current account balance	**−0.1**	**−0.3**	**−0.4**	**−0.4**	**−0.6**	**−0.7**	**−0.1**
Medium- and long-term capital	0.1	0.2	0.4	0.4	0.4	0.4	Negl.
Official flows	0.1	0.2	0.2	0.3	0.3	0.2	0.1
Direct investment	Negl.	0.1	0.1	0.1	0.1	Negl.	Negl.
Private loans	−0.1	Negl.	0.1	Negl.	Negl.	0.1	−0.1
Short-term capital	Negl.	Negl.	Negl.	0.1	0.2	0.2	Negl.
Errors and omissions	Negl.	Negl.	Negl.	Negl.	Negl.	Negl.	Negl.
Allocations of SDRs	Negl.	Negl.	Negl.	0	0	0	0
Change in reserves and related items	**Negl.**	**Negl.**	**Negl.**	**0.1**	**−0.1**	**−0.1**	**−0.1**

*Because of rounding, components may not add to the totals shown.

ZAMBIA

Zambia probably cannot manage a much larger current account deficit than last year's level of $100 million. Lusaka's basic problem reflects large-scale programs begun in the late 1960s that were designed to improve social well-being, to reduce economic dependence on Rhodesia, and to take over the copper mines. Until recently, the programs were easily financed from the rapid increases in the real price of copper. None of these efforts have increased foreign exchange earnings; in fact, they probably had the opposite effect. Thus, when real copper prices declined during the early 1970s, Lusaka found it had to borrow enough to continue its programs. Eventually it had to cut imports, thereby reducing economic growth.

Although Zambia's debt service ratio remains about 10 percent, lenders have become increasingly wary of the country's future ability to repay loans. Copper exports are not expected to increase much in volume or price between now and 1980. Little has been done to diversify the economy, and the region is politically unstable. For Zambia to resume more rapid economic growth, real copper prices must again rise or large sources of official aid must be found.

Zambia: Balance of Payments*

Billion US $

	1970	1971	1972	1973	1974	1975	1976
Trade balance	0.5	0.1	0.2	0.6	0.6	−0.1	0.3
Exports	0.9	0.7	0.8	1.1	1.4	0.8	1.0
Imports	−0.5	−0.6	−0.6	−0.5	−0.8	−0.9	−0.7
Services and private transactions	−0.3	−0.4	−0.4	−0.5	−0.5	−0.5	−0.4
Current account balance	**0.1**	**−0.2**	**−0.2**	**0.1**	**0.1**	**−0.6**	**−0.1**
Medium- and long-term capital	−0.1	Negl.	0.1	Negl.	0.1	0.2	Negl.
Official flows	Negl.	Negl.	Negl.	0.2	0.1	0.1	Negl.
Direct investment	−0.3	Negl.	Negl.	Negl.	Negl.	Negl.	Negl.
Private loans	0.2	Negl.	0.1	−0.2	Negl.	0.1	Negl.
Short-term capital	0.2	0.1	Negl.	−0.1	−0.1	0.3	Negl.
Errors and omissions	Negl.	−0.1	−0.1	−0.1	Negl.	Negl.	Negl.
Allocations of SDRs	Negl.	Negl.	Negl.	0	0	0	Negl.
Change in reserves and related items	**0.1**	**−0.3**	−0.1	**Negl.**	**Negl.**	−0.1	**−0.1**

*Because of rounding, components may not add to the totals shown.

APPENDIX B

Supporting Statistical Tables

Table B-1

Countries Whose Foreign Payments Position Could Be a Major Constraint to Economic Growth

	CNP, 1976 (Billion US $)	CNP, Average Annual Rate of Growth (Percent)		Current Account Balance, 1976 (Billion US $)[1]	Current Account Balance as Percent of Exports of Goods and Services		External Debt (Billion US $)		Ratio of External Debt to Exports of Goods and Services		Debt Service Ratio[2]	
		1971-73	1976-77		1970-72	1976	1970-72	1976	1970-72	1976	1970-72	1976
Major Developed Countries												
France	354	5.7	4.5	−4.8	3	−7						
Italy	159	3.7	2.5	−1.7	10	−4						
United Kingdom[3]	218	3.4	−1.5	−1.1	6	−2						
Smaller Developed Countries												
Austria	40	6.9	4.0	−1.5	Negl.	−11	N.A.	2[4]	N.A.	15	N.A.	10
Denmark	38	3.5	3.0	−2.2	−6	−13	N.A.	13	N.A.	100	N.A.	3
Finland	28	6.5	1.5	−1.1	−6	−14	N.A	6	N.A.	75	N.A.	11
Israel	12	10.0	4.0	−2.3	−22	−42	3.0	9	165	165	17	21
New Zealand	11	4.8	−2.0	−0.8	1	−24	N.A.	3	N.A.	90	N.A.	6
Portugal[5]	14	9.5	2.5	−1.3	Negl.	−31	0.5	3	15	85	6	8
South Africa	31	3.8	1.5	−1.9	−20	−17	1.4	7	30	70	N.A.	N.A.
Spain	103	7.8	1.0	−4.4	1	−28	2.0	12	30	75	4	16
Sweden	74	3.1	1.5	−1.9	Negl.	−9	N.A	4	N.A.	20	N.A.	3
Less Developed Countries												
Brazil	107	11.0	5.0	−6.0	−30	−55	5	31	125	265	33	46
Chile	9	2.0	5.5	Negl.	−17	Negl.	2	5	205	215	26	39
Egypt	12	3.8	5.0	−2.4	−50	−85	2	12	160	430	36	35
Jamaica	3	5.6	−4.1	−0.3	−35	−35	0.1	0.7	15	95	4	17
Mexico[3]	86	6.1	4.0	−3.1	−30	−50	4	25	110	280	24	28[6]
Peru	14	5.8	2.0	−1.1	0	−60	1	4	85	220	27	40
Zaire	4	5.3	0	−0.3	−38	−10	0.4	2.6	50	235	15	32
Zambia	2	2.5	0.5	−0.1	−12	−10	0.5	1.0	60	100	Negl.	10
Countries Which May Face Constraints in Near Future												
Canada	184	6.5	4.4	−4.1	Negl.	−9	N.A	3.5	N.A.	90	N.A.	6
Morocco	8	3.7	7.0	−1.5	Negl.	−65	0.8	2.3	115	100	12	9
Philippines	17	6.6	6.0	−1.0	Negl.	−28	0.7	5.5	55	160	28	17
Turkey	40	8.2	7.5	−2.0	Negl.	−50	2.1	5	265	150	20	11

[1] Current account includes goods, services (including reinvested earnings), and private transfers.
[2] Debt service ratio is principal and interest payments (excluding short term) as a share of exports of goods and services.
[3] Problem likely to ease with increased oil exports.
[4] Public debt only.
[5] Current account balance, exports of goods and services, external debt, and debt service ratio 1972 only.
[6] Public debt only; inclusion of private debt would raise ratio to 30-35 percent.

Table B-2

Growth of Non-OPEC Countries' Trade

	Percent Increase 1976 over 1970-72		Differential
	Exports	Imports	Percentage Points
Developed Countries			
Turkey	173	318	−145
Portugal	60	100	−40
New Zealand	91	130	−39
Japan	180	213	−33
Spain	186	212	−26
Denmark	139	164	−25
Canada	114	138	−24
France	162	186	−24
Italy	136	159	−23
Belgium	143	164	−21
Sweden	139	160	−21
United Kingdom	110	129	−19
South Africa	105	117	−12
Finland	152	160	−8
United States	152	160	−8
Austria	157	160	−3
Australia	139	140	−1
West Germany	155	153	2
Israel	151	149	2
Norway	186	174	12
Netherlands	183	164	19
Yugoslavia	155	136	19
Ireland	146	126	20
Switzerland	152	101	51
Greece	202	144	58
Less Developed Countries			
Egypt	89	339	−250
Peru	45	202	−157
Morocco	124	259	−135
Philippines	128	197	−69
Brazil	215	261	−46
Zambia	23	51	−28
Mexico	110	132	−22
Thailand	281	286	−5
Zaire	19	22	−3
Jamaica	70	65	5
India	128	106	22
Hong Kong	185	162	23
Chile	112	79	33
Malaysia	215	156	59
South Korea	556	281	275
Non-OPEC Countries combined	**150**	**160**	**−10**

Table B-3

Effect of Inflation on the Burden of the OPEC Surplus

A. Deficits Deflated for Inflation

	Current Account of the OPEC Countries (billion $)[1]	Price Index for Exports of Non-OPEC Countries (1976=100)[2]	Deflated Current Account of OPEC Countries (billion 1976 US $)
1971	3	51	6
1972	4	55	7
1973	7	68	10
1974	73	90	81
1975	33	98	34
1976	40	100	40
1977	39	106	37
1978	35	112	31
1979	27	119	23
1980	29	126	23

[1] Actual values for 1971-76; projections for 1977-80 assume constant real price for oil and average annual growth of GNP equal to 4.2 percent for developed countries and 4.5 percent for LDCs.

[2] From IMF statistics for 1971-76; projected at 6 percent per year in 1977-80.

B. Ratio of Surplus to Exports of Non-OPEC Countries

	Exports[3] (billion US$)	Surplus as Percent of Exports
1971	293	1
1972	348	1
1973	485	1
1974	654	11
1975	685	5
1976	770	5
1977	880	4
1978	1000	3
1979	1140	2
1980	1300	2

[3] Actual values for 1971-76; value of trade is projected to increase by 14 percent per year in 1977-80 (a compound of yearly price increases of 6 percent and volume increases of 7.5 percent).

C. Debt of Non-OPEC LDCS Deflated for Inflation

	LDC Debt[4] (billion US $	Index of LDC Export Prices (1976=100)[2]	Deflated Debt (billion 1976 US $
1971	50	46	109
1972	57	49	116
1973	67	63	106
1974	94	90	104
1975	117	91	129
1976	145	100	145
1977	160	106	151
1978	177	112	158
1979	197	119	166
1980	219	126	174

[4] Figures for 1971-76 are CIA estimates. The growth in 1977-80 assumes that non-OPEC LDC current account deficits will rise to $35 billion by 1980.

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A Global Perspective

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